City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

City and County of San Francisco

Meeting Agenda

Budget and Finance Committee

Members: Tom Ammiano, Ross Mirkarimi, Sean Elsbernd

Clerk: Gail Johnson

Thursday, November 03, 2005 | **1:00 PM** | **City Hall, Room 263**

Regular Meeting

Note: Each item on the Consent or Regular agenda may include the following documents:
1) Legislation
2) Budget Analyst report
3) Legislative Analyst report
4) Department or Agency cover letter and/or report
5) Public correspondence
These items will be available for review at City Hall, Room 244, Reception Desk.

Each member of the public will be allotted the same maximum number of minutes to speak as set by the Chair at the beginning of each item, excluding City representatives, except that public speakers using translation assistance will be allowed to testify for twice the amount of the public testimony time limit. If simultaneous translation services are used, speakers will be governed by the public testimony time limit applied to speakers not requesting translation assistance.

AGENDA CHANGES

REGULAR AGENDA

1. **051648** **[Mayor's Budget Instructions to City Departments]**
Supervisor Daly
Hearing on the Mayor's instructions to City Departments regarding policy fiscal objectives and policy priorities in drafting their budgets, including: (1) What fiscal constraints is the Mayor applying to budget creation? (2) What major policy objectives and strategic initiatives is the Mayor planning? (3) How will Board of Supervisors' budget priorities resolution and subsequent restorations for FY 06-07 be considered in these instructions? (4) What are the Mayor's plans to respond to the epidemic of homicides affecting many San Francisco neighborhoods?

9/27/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

2. 051684 **[To re-appropriate funds from the Mayor's Office to the Treasure Island Development Authority salaries account to fund severance pay and benefits to the Director of Treasure Island]**

Supervisors Sandoval, Daly

Ordinance re-appropriating $254,500 of salary funds from the Mayor's Office to the Treasure Island Development Authority salaries account to fund severance pay and benefits to the Director of Treasure Island for Fiscal Year 2005 - 2006.

(Fiscal impact.)

10/11/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

3. 051737 **[Budget Analyst Report on the Public Education Enrichment]**

Supervisor Ammiano

Hearing to discuss the Budget Analyst Report on the Public Education Enrichment Fund dated September 30, 2005.

10/18/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

4. 050871 **[Adopting the Redevelopment Plan Amendment for the South of Market Redevelopment Project Area]**

Mayor, Supervisor Daly

Ordinance approving and adopting the Redevelopment Plan Amendment for the South of Market Redevelopment Project Area; adopting findings pursuant to the California Environmental Quality Act; adopting findings that the Redevelopment Plan Amendment and related documents are consistent with the City's General Plan and Eight Priority Policies of City Planning Code Section 101.1; adopting other findings pursuant to the California Community Redevelopment Law; and authorizing official acts in furtherance of this ordinance.

(Fiscal impact.)

5/17/05, ASSIGNED UNDER 30 DAY RULE to Land Use Committee, expires on 6/16/2005. SUPPORTING MATERIALS: Redevelopment Agency's Executive Director's memo to Agency Commission on South of Market Redevelopment Plan Amendment and related Agency Commission Resolution Nos. 67-2005 through 69-2005 and 71-2005 through 72-2005, adopted by Agency Commission May 3, 2005.
Final Environmental Impact Report for the South of Market Redevelopment Plan Amendment (FEIR) and the Final Supplement to FEIR (Appendix H).
Report on South of Market Redevelopment Plan Amendment.
The proposed Delegation Agreement between Redevelopment Agency and Planning Department.
Planning Commission Motion Nos. 16928 (adopted January 13, 2005), 16969 and 16970 (adopted March 24, 2005).

(PENDING REFERRAL FROM THE LAND USE COMMITTEE)

ADJOURNMENT

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to the City, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of the Board of Supervisors. Any written comments should be sent to: Committee Clerk of the Budget and Finance Committee, San Francisco Board of Supervisors, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the committee clerk by that time may be taken directly to the hearing at the location above

LEGISLATION UNDER THE 30-DAY RULE

(Not to be considered at this meeting)

Rule 5.40 provides that when an ordinance or resolution is introduced which would CREATE OR REVISE MAJOR CITY POLICY, the committee to which the legislation is assigned shall not consider the legislation until at least thirty days after the date of introduction. The provisions of this rule shall not apply to the routine operations of the departments of the City or when a legal time limit controls the hearing timing. In general, the rule shall not apply to hearings to consider subject matter when no legislation has been presented, nor shall the rule apply to resolutions which simply URGE action to be taken.

051759 **[Rewards to Informants (Real Estate Watchdogs) for Information Related to the Detection of Underpayment of Property Tax]**

Ordinance amending Chapter 10 of the San Francisco Administrative Code by adding Sections 10.177-2 and 10.177-3, authorizing the Assessor to recommend rewards for information related to the detection of underpayment of tax owed to the City and County of San Francisco. (Assessor-Recorder)

10/17/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 11/24/2005.

Meeting Procedures

The Board of Supervisors is the Legislative Body of the City and County of San Francisco. The Board has several standing Committees where ordinances and resolutions are the subject of hearings at which members of the public are urged to testify. The full Board does not hold a second public hearing on measures which have been heard in committee.

Board procedures do not permit: 1) persons in the audience at a Committee meeting to vocally express support or opposition to statements by Supervisors or by other persons testifying; 2) ringing and use of cell phones, pagers, and similar sound-producing electronic devices; 3) signs to be brought into the meeting or displayed in the room; 4) standing in the meeting room.

Citizens are encouraged to testify at Committee meetings and to write letters to the Clerk of a Committee or to its members, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102.

Agendas are available on the internet at www.sfgov.org/site/bdsupvrs_index.asp?id=4383

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Requests for language interpreters at a meeting must be received at least 48 hours in advance of the meeting to help ensure availability. Contact Madeleine Licavoli at (415) 554-7722.

AVISO EN ESPAÑOL: La solicitud para un traductor en una reunion debe recibirse antes de mediodia de el viernes anterior a la reunion. Llame a Erasmo Vazquez (415) 554-4909.

翻譯 必須在會議前最少四十八小時提出要求
請電 (415) 554-7701

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The Legislative Chamber (Room 250) and the Committee Room (Room 263) in City Hall are wheelchair accessible.

Meetings are real-time captioned and are cablecast open-captioned on SF Cable 26. Assistive listening devices for the Legislative Chamber are available upon request at the Clerk of the Board's Office, Room 244. Assistive listening devices for the Committee Room are available upon request at the Clerk of the Board's Office, Room 244 or in the Committee Room. To request sign language interpreters, readers, large print agendas or other accommodations, please contact Madeleine Licavoli at (415) 554-7722 or (415) 554-5227 (TTY). Requests made at least 48 hours in advance of the meeting will help to ensure availability.

The nearest accessible BART station is Civic Center (Market/Grove/Hyde Streets). Accessible MUNI Metro lines are the J, K, L, M, and N (Civic Center or Van Ness Stations). MUNI bus lines serving the area are the 47 Van Ness, 9 San Bruno, and the 6, 7, 71 Haight/Noriega. For more information about MUNI accessible services, call (415) 923-6142.

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Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City and County exist to conduct the people's business. The Sunshine Ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. For information on your rights under the Sunshine Ordinance (Chapter 67 of the San Francisco Administrative Code) or to report a violation of the ordinance, contact Frank Darby by mail to Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco CA 94102 by phone at (415) 554-7724, by fax at (415) 554-7854 or by email at sotf@sfgov.org
Citizens may obtain a free copy of the Sunshine Ordinance by contacting Mr. Darby or by printing Chapter 67 of the San Francisco Administrative Code on the Internet, at http://www.sfgov.org/sunshine

Lobbyist Registration and Reporting Requirements

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [SF Campaign & Governmental Conduct Code Sec. 2.100] to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the San Francisco Ethics Commission at 30 Van Ness Avenue, Suite 3900, San Francisco, CA 94102; telephone (415) 581-2300; fax (415) 581-2317; web site www.sfgov.org/ethics

BUDGET AND FINANCE COMMITTEE
S.F. BOARD OF SUPERVISORS
CITY HALL, ROOM 244
1 DR. CARLTON GOODLETT PLACE
SAN FRANCISCO, CA 94102-4689

IMPORTANT HEARING NOTICE!!!

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 554-7642
FAX (415) 252-0461

October 27, 2005

TO: Budget and Finance Committee

FROM: Budget Analyst

SUBJECT: November 3, 2005 Budget and Finance Committee Meeting

Item 2 - File 05-1684

Departments: Mayor's Office
Treasure Island Development Authority (TIDA)

Item: Ordinance reappropriating $254,500 of General Fund salary monies from the Mayor's Office to the Treasure Island Development Authority salaries account to fund 18 months of severance pay and benefits in order to fulfill the contractual obligations to the former Executive Director of the Treasure Island Development Authority.

Amount: $254,500

Source of Funds: Mayor's Office FY 2005-2006 General Fund Salaries

Background: The Treasure Island Development Authority (TIDA) is a nonprofit public benefit corporation established by the Board of Supervisors on May 2, 1997 (Resolution No. 244-97-003). TIDA's purpose is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the former Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City. TIDA is governed by a seven-member Board of Directors. All seven members are appointed by the Mayor. In addition, the member of the Board of Supervisors who represents Supervisorial District 6, in which Treasure Island is located, sits as an

ex-officio, non-voting member of the TIDA Board of Directors.

On October 12, 2005, the TIDA Board of Directors terminated the employment of the former Treasure Island Executive Director, Mr. Tony Hall, without cause. Attachment I, provided by Mr. Donnell Choy of the City Attorney's Office, is a copy of the Employment Agreement, executed on August 4, 2004 between TIDA and Mr. Hall.

In accordance with Section 7 of the attached Employment Agreement, Mr. Hall's termination is effective "upon at least thirty (30) days advance written notice to Hall." According to Mr. Choy, Mr. Hall received written notice on October 12, 2005 and therefore his effective termination date is November 11, 2005.

Section 7 of the attached Employment Agreement also states:

"In the event of a termination without a determination of cause, Hall shall receive an amount equal to 18 months salary, or an amount equivalent to the salary that would have been paid for the remaining term of this Agreement, whichever is less. This amount shall be paid in equal increments in accordance with the Authority's pay schedule, but in no event less frequently than monthly; provided, however, that the Authority may, in its sole discretion, determine to pay out this amount in a lump sum. In the event of termination without a determination of cause, the Authority shall also pay any amounts required to provide Hall with health benefits for 18 months or the remaining term of this Agreement, whichever is less."

According to Mr. John Farrell of TIDA, TIDA's "pay schedule" is on a bi-weekly basis and pay in "equal increments" refers to bi-weekly payments.

As shown in Section 2 of the attached Employment Agreement, Mr. Hall's contract expires on January 8, 2008, or nearly 26 months from the November 11, 2005 termination date. Therefore, in accordance with Section 7 of the attached Employment Agreement, since 18 months

is less than the remaining 26 months under the term of the Employment Agreement, Mr. Hall is entitled to 18 months of salary and health benefits.

According to Ms. Monique Zmuda of the Controller's Office, 18 months of Mr. Hall's annual salary of $159,998 and health benefits is $254,500, the amount which serves as the basis of this subject request (see Comment No. 1).

Description: The proposed ordinance would authorize the reappropriation of $254,500 of General Fund salary monies from the Mayor's Office FY 2005-2006 budget to the Treasure Island Development Authority (TIDA) salaries account to fund the 18 months of salary and health benefits, as determined by the Controller's Office, which is due to Mr. Hall, the former Executive Director of Treasure Island in accordance with the Employment Agreement between TIDA and Mr. Hall.

Fiscal Impact: According to Ms. Noelle Simmons of the Mayor's Budget Office, even if the proposed requested $254,500 reappropriation of salary monies from the Mayor's Office to TIDA were not approved by the Board of Supervisors, there would still be a projected deficit of approximately $8,607 in the Mayor's Office FY 2005-2006 salary budget as of June 30, 2006. However, according to Ms. Simmons, if this proposed $254,500 reappropriation of funds is approved, the projected deficit in the Mayor's Office FY 2005-2006 budget would increase to $263,107 as of June 30, 2006 ($8,607 plus $254,500). According to Ms. Simmons, such a deficit of $263,107 would require the Mayor's Office to lay-off an estimated 6.0 FTEs in order to transfer the requested $254,500 to TIDA as is being requested under this subject ordinance.

Comments: 1. According to Mr. Farrell, the total amount due to Mr. Hall under the Employment Agreement between TIDA and Mr. Hall is $281,826 or $27,326 more than the subject requested amount of $254,500, based on Mr. Farrell's interpretation of the Employment Agreement and subsequent amendment of also paying Mr. Hall for employee health, dental and retirement contributions, plus a cost of living increase (COLA) of 2.2 percent. However, after reviewing Mr. Farrell's assumptions, Mr. Choy has informed the Budget Analyst that retirement contributions should not

be added to the severance pay and that health and dental benefits should be funded separately instead of being added to Mr. Hall's severance pay.

2. Ms. Zmuda states that based on preliminary first quarter salary spending (July 1, 2005 through September 30, 2005), TIDAs FY 2005-2006 budget is not projected to have a salary savings as of June 30, 2006[1], to pay for the amount due to Mr. Hall. In addition, the amount Ms. Zmuda calculated to fund the severance pay and benefits included Mr. Hall's base salary and health benefits, but did not include dental benefits or the 2.2 percent COLA which Mr. Hall received in August of 2005.

Based on the Budget Analyst's calculations, the correct amount for severance pay and benefits should include dental benefits of $1,086 annually ($1,629 for 18 months) and the 2.2 percent COLA of $3,520 annually ($5,280 for 18 months). Therefore, the proposed supplemental appropriation should be increased by $6,909 to fully fund Mr. Hall's severance pay and health and dental payments ($1,629 plus $5,280) to a revised total amount of $261,409($254,500 plus $6,909).

3. Attachment II, provided by Ms. Claudine Cheng, President of the TIDA Board of Directors, is a letter to the Budget Analyst's Office dated October 25, 2005, responding to how TIDA plans to pay for the severance pay due to Mr. Hall if this proposed ordinance appropriating General Fund monies were not approved by the Board of Supervisors. Ms. Cheng states: "Mr. Hall's salary was included in the TIDA annual budget for Fiscal Year 2005-2006. Since the gross amount of his incremental severance payments would be the same as the gross amount of the paychecks he is receiving according to TIDA's pay schedule, there would be no need to amend TIDA's budget for the current fiscal year. If TIDA decided to hire another Executive Director, there might be a need to amend TIDA's budget, but no decision has yet been made in that regard. In addition, other staffing and/or operational changes during the coming

[1] Ms. Zmuda states that the City's accounting system FAMIS reports may not provide an accurate representation of the TIDA budget. According to Ms. Zmuda, the Controller's Office has begun an audit of TIDA in order to determine TIDA's precise fiscal status.

months could impact the need to amend the budget even if a new Executive Director is hired."

4. The Budget Analyst notes that at this time, TIDA plans to pay Mr. Hall on a biweekly basis to fulfill its contractual obligation with Mr. Hall, instead of making a lump sum payment, which has not been approved by TIDA as of the writing of this report. Either biweekly payments or a lump sum payment are provided for under Section 7 of the attached Employment Agreement as alternative methods of payment to Mr. Hall. Ms. Cheng states in Attachment II that, as of the writing of this report, Mr. Hall will receive "incremental payments" (biweekly payments).

Recommendations:

1. In accordance with Comment 2 above, the proposed supplemental appropriation should be increased by \$6,909 to fully fund Mr. Hall's severance pay, including the 2.2 percent COLA, and health and dental payments to a revised total amount of \$261,409 (\$254,500 plus \$6,909).

2. Approval of the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made this 4th day of AUGUST, 2004, by and between the Treasure Island Development Authority (the "Authority"), and Tony Hall ("Hall"), an individual.

WHEREAS, under the Authority's Articles of Incorporation and Bylaws, the Authority, acting through its Board of Directors, has the power, subject to applicable laws to, among other things, appoint and remove, at the pleasure of the Board of Directors, all of the Authority's officers, agents, and employees, and prescribe powers and duties for them that are consistent with law, and with the Authority's Articles of Incorporation and the Bylaws,

Now therefore, in consideration of the mutual promises set forth, the Authority and Hall represent, promise and agree as follows:

1. **Appointment.** Under the Authority's Articles of Incorporation and Bylaws, the Authority hereby appoints Hall Executive Director of the Authority. Hall hereby agrees to and accepts this appointment. Hall is an employee of the Authority.

2. **Term.** The term of this contract is from August 5, 2004, until January 8, 2008, unless earlier terminated as provided elsewhere in this Agreement.

3. **Authority.** Hall shall be the Executive Director of the Authority.

4. **Salary.** For fiscal year 2004-2005, Hall's salary shall be the salary currently budgeted for the Executive Director in the Treasure Island Authority budget for fiscal year 2004-2005 ($159,998). For any time period after July 1, 2005, Hall shall be entitled to, at a minimum, a yearly cost of living increase, an incentive bonus under criteria to be set by the Authority, and any further increase approved by the Authority. Hall's salary shall be subject to annual review.

5. **Health Benefits, Pension and Vacation.**

Health Benefits. The Authority shall provide Hall with health benefits through the Health Service System of the City and County of San Francisco at no cost to Hall. The Authority shall enact any resolution required by San Francisco Administrative Code Section 16.700 to make Hall eligible to participate in the Health Service System, and any resolution required by Administrative Code Section 16.701 to establish the employer contributions required by this paragraph.

Pension. The Authority shall apply to California's Public Employees' Retirement System (CalPERS) for a contract between the Authority and CalPERS for CalPERS to provide pension benefits to Hall. This application shall be initiated and completed as soon as reasonably possible.

Vacation. Hall shall be entitled to four weeks of paid vacation per year.

6. **Performance Review and Evaluation.** At the end of the first year, and every subsequent year of this Agreement, the Authority shall conduct an annual performance review to evaluate Hall's performance and review his compensation, which shall be set in accordance with paragraph 4.

7. **Termination of Agreement.** After August 6, 2005, the Authority may terminate this Agreement at any time at its convenience, without cause, and without stating any reasons therefore, and upon at least thirty (30) days advance written notice to Hall. Upon the expiration of the notice period, Hall's employment will terminate automatically and Hall's compensation and benefits shall cease except to the extent provided in this Paragraph 7.

In the event of a termination without a determination of cause, Hall shall receive an amount equal to 18 months salary, or an amount equivalent to the salary that would have been paid for the remaining term of this Agreement, whichever is less. This amount shall be paid in equal increments in accordance with the Authority's pay schedule, but in no event less frequently than monthly; provided, however, that the Authority may, in its sole discretion, determine to pay out this amount in a lump sum. In the event of termination without a determination of cause, the Authority shall also pay any amounts required to provide Hall with health benefits for 18 months or the remaining term of this Agreement, whichever is less.

The Authority may terminate this Agreement at any time in the event that the Authority finds cause for termination. In that event, compensation to Hall shall cease immediately upon the termination. Cause for termination is defined as: (a) conviction, guilty plea, or nolo contendere plea to (i) any felony or (ii) any misdemeanor in any way related to his job responsibilities or past or present status as a public official; (b) any act of willful misconduct or dishonesty related to his past or present positions with the City, (c) any willful violation of the Authority's written policies, including but not limited to those prohibiting discrimination or harassment in the workplace, (d) any willful or habitual failure to perform, or an incapacity to perform, the duties of the position, or (e) any willful conduct unbecoming a public official in the position of Executive Director of the Authority. A determination of cause shall be made within the sole discretion of the Authority and without any requirement of an evidentiary hearing. Prior to terminating Hall for cause, the Authority shall provide Hall with notice of the conduct that consitutes cause and Hall and the Authority shall engage in at least one session of mediation. Hall does not waive any right he may have to challenge the Authority's decision in a court of law.

8. **Resignation, Death, Incapacity.** Hall may resign Hall's appointment upon at least forty-five (45) days' advance written notice to the Authority or any shorter period agreed to by the Authority in its sole and absolute discretion. Any compensation due under the terms of this Agreement shall cease upon termination of service under this paragraph. If Hall's services are terminated by death or incapacity, compensation due under the terms of this Agreement shall cease on the day after death or incapacity.

9. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California and enforced only in a state or federal court located in San Francisco, California.

10. **Notices.** All notices and any other written communication required or permitted to be served hereunder or by law shall be in writing and be deemed served by delivering or mailing the same, postage prepaid, and addressed as follows:

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To TIDA: Claudine Cheng
President
Treasure Island Development Authority
410 Palm Avenue, Building 1
San Francisco, CA 94130

To: Tony Hall Tony Hall
Executive Director
Treasure Island Development Authority
410 Palm Avenue, Building 1
San Francisco, California 94103

Either party may modify the address at which it shall receive notice under this Agreement by three days' prior written notice to the other party.

11. **No Assignment.** This Agreement may not be assigned, except that the Agreement shall extend to any entity with or into which the Authority may merge or consolidate under law.

12. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties and supercedes all prior oral or written understandings between the parties. There are no oral or written covenants, inducements, promises or agreements between the parties except as contained herein. Nothing contained in this Agreement may be modified, altered or amended, except in writing signed by and approved by the Authority and Hall in the same manner as this Agreement.

13. **Severability.** If any provision of this Agreement is held to be invalid or unenforceable, the remainder of this agreement shall remain in full force and effect.

In Witness whereof, the parties hereto have affixed their signatures as of the date and year first above written.

This Agreement may be executed in counterparts containing original signatures.

Tony Hall

Tony Hall

AUTHORIZED BY

Treasure Island Development Authority

RESOLUTION NO. 04-185-8/04

ADOPTED: August 4, 2004

ATTESTED:

Secretary, Treasure Island Development Authority

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Pursuant to TIDA Resolution No. 04-185-8/04

TREASURE ISLAND DEVELOPMENT AUTHORITY

By _______ for Claudine Cheng
Claudine Cheng
President

APPROVED AS TO FORM:

Dennis J. Herrera
City Attorney

By _______
Deputy City Attorney

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CITY & COUNTY OF SAN FRANCISCO

TREASURE ISLAND DEVELOPMENT AUTHORITY
410 AVENUE OF THE PALMS,
BLDG. ONE, 2ND FLOOR, TREASURE ISLAND
SAN FRANCISCO, CA 94130
(415) 274-0660 FAX (415) 274-0299
WWW.SFGOV.ORG/TREASUREISLAND

GAVIN NEWSOM, MAYOR

October 25, 2005

Rebekah Krell
Budget Analyst's Office
San Francisco Board of Supervisors
1390 Market Street, 11th Floor
San Francisco, CA 94102

Re: Treasure Island Development Authority
Severance Payments

Dear Ms. Krell:

This letter responds to your request for a written statement as to how the Treasure Island Development Authority plans to pay for Mr. Hall's severance payments. Specifically, you asked:

> "Assuming the proposed ordinance does not pass-- how is TIDA planning to pay for Mr. Hall's severance? ie, from what funding source?"

Your question arises out of an ordinance proposed by Supervisor Sandoval to re-appropriate funds from the Mayor's Office to pay for Mr. Hall's severance payments.

Mr. Hall's Employment Agreement states in the event his agreement is terminated without cause, Mr. Hall "shall receive an amount equal to 18 months salary .... to be paid in equal increments in accordance with the Authority's pay schedule...." The Employment Agreement also states that "the Authority may, in its sole discretion, determine to pay out this amount in a lump sum." As you know, at its meeting on October 12, 2005, the TIDA Board of Directors elected to terminate Mr. Hall's Employment Agreement without cause, but did not exercise its right to pay his severance amount in a lump sum. The TIDA Board may decide to exercise that right in the future, but as of today, it has not exercised that right. Therefore, after Mr. Hall's employment with TIDA terminates on November 12, 2005, he will receive his severance amount in incremental payments in accordance with TIDA's pay schedule.

Mr. Hall's salary was included in the TIDA annual budget for Fiscal Year 2005-2006. Since the gross amount of his incremental severance payments would be the same as the gross amount of the paychecks he is receiving according to TIDA's pay schedule, there would be no need to amend TIDA's budget for the current fiscal year. If TIDA decided to hire another Executive Director, there might be a need to amend TIDA's budget, but no decision has yet been

made in that regard. In addition, other staffing and/or operational changes during the coming months could impact the need to amend the budget even if a new Executive Director is hired.

If TIDA continues to pay Mr. Hall's severance payments in increments, then it will have to incorporate those payments into its proposed budget for Fiscal Year 2006-2007. As of this writing, the TIDA Board has not determined its budget for the next fiscal year.

Sincerely,

Claudine Cheng
President
TIDA Board of Directors

cc: Members of the TIDA Board of Directors
Donnell Choy, Deputy City Attorney

Item 3 – File 05-1737

Item: Hearing to discuss the Budget Analyst's September 30, 2005 report on the Public Education Enrichment Fund.

Description: In March of 2004, San Francisco voters approved Proposition H, which amended the City's Charter and established the Public Education Enrichment Fund to augment the funding for the San Francisco Unified School District (SFUSD) and the Children and Families First Commission. Under Charter Section 16.123-7, the Budget Analyst is required to prepare and submit recommended budget reductions and/or revenue increases to the Board of Supervisors no later than October 1 of each year to fund the Public Education Enrichment Fund in the subsequent fiscal year.

For FY 2006-2007, funding of the Public Education Enrichment Fund is mandated to be $20 million. The Board of Supervisors previously appropriated $13.3 million of the $20 million requirement for FY 2006-2007, in the City's FY 2005-2006 budget. Therefore, the remaining funding requirement for the Public Education Enrichment Fund for FY 2006-2007 is $6.7 million ($20 million required less $13.3 million previously appropriated).

The proposed hearing is to discuss the Budget Analyst's report, which was submitted to the Board of Supervisors on September 30, 2005. That report identifies potential General Fund budget reductions of approximately $5,889,052 and general discretionary revenue increases of a minimum of $777,615, or a total of approximately $6,666,667 to fund the remaining FY 2006-2007 Public Education Enrichment Fund requirement of $6.7 million, as noted above. In addition, the Budget Analyst's Report provides background and recommendations for identifying potential City in-kind services for the SFUSD.

Comment: We are prepared to summarize the recommendations contained in the Budget Analyst's September 30, 2005 report on the Public Education Enrichment Fund and to respond to any questions at the Budget and Finance Committee's meeting of November 3, 2005.

Item 4 - File 05-0871

Department: San Francisco Redevelopment Agency (SFRA)

Item: Ordinance amending the South of Market Earthquake Recovery Redevelopment Plan (South of Market Redevelopment Plan) to (a) extend the Project Area to include a new Western Expansion Area; (b) increase the South of Market Redevelopment Plan's periods for incurring and repaying debt by ten years, through 2020 for incurring debt, and through 2030 for repaying debt; (c) increase the total maximum tax increment revenue that can be allocated to the San Francisco Redevelopment Agency from the subject project area by $98,000,000, from $102,000,000 to $200,000,000; (d) increase the amount of bonded indebtedness that may be outstanding at any one time by $20,000,000, from $60,000,000 to $80,000,000; (e) adopt findings pursuant to the California Environmental Quality Act (CEQA); (f) adopt findings that the Redevelopment Plan Amendment and related documents and agreements are consistent with the City's General Plan and Eight Priority Policies of City Planning Code Section 101.1; and (g) adopt other findings as required by California Community Redevelopment Law.

Background: According to Mr. Mike Grisso, Project Manager for the San Francisco Redevelopment Agency (SFRA), the proposed South of Market Earthquake Recovery Redevelopment Plan (South of Market Redevelopment Plan) Project Area, including the proposed new Western Expansion Area, as shown on page 2 of Attachment I provided by Mr. Grisso, exhibits evidence of physical and economic blight. Mr. Grisso further advises that many older buildings with extensive physical deficiencies characterize the proposed project area. All of these conditions are described in the SFRA's *Report on the Plan Amendment*, which is included in the Board of Supervisors File 05-0871. A finding of blight is a necessary condition to establish a redevelopment project area.

Attachment I to this report, the Introduction to the SFRA's *Report on the Plan Amendment*, provides an

overview of the background and purpose of the proposed South of Market Redevelopment Plan Amendment.

Description:

The proposed ordinance would adopt the South of Market Redevelopment Plan Amendment, which would amend the South of Market Redevelopment Plan, originally created in June of 1990 (Ordinance No. 234-90), as follows:

- Add a "Western Expansion Area" to the existing South of Market Redevelopment Project Area for a total redevelopment project area generally bounded by Mission Street to the north, Fifth Street to the east, Folsom Street to the south, and Seventh Street to the West, shown in the map on page 2 of Attachment I;
- Extend the South of Market Redevelopment Plan's period for incurring debt by ten years, from 2010 to 2020;
- Extend the South of Market Redevelopment Plan's period for repaying debt by ten years, from 2020 to 2030;
- Extend the South of Market Redevelopment Plan's duration of housing and non-housing program activities by ten years from 2010 to 2020;
- Increase the total maximum tax increment revenue that can be allocated to the SFRA from the South of Market Redevelopment 68.81-acre Project Area by $98,000,000, or 96.1 percent, from $102,000,000 to $200,000,000;
- Increase the amount of bonded indebtedness that may be outstanding at any one time by $20,000,000, from $60,000,000 to $80,000,000;
- Make findings that the South of Market Redevelopment Plan is consistent with the City's General Plan and the Priority Policies of Section 101.1 of the Planning Code; and
- Make environmental findings and other findings required by State of California Redevelopment law.

The Redevelopment Plan for the South of Market Redevelopment Project Area:

The Redevelopment Plan for the South of Market Redevelopment Project area includes:

(1) $34,500,000 for the provision of affordable housing units, as defined by the Federal Housing and Urban Development Department (HUD). Mr. Grisso advises that the total number of new or rehabilitated units to be built in the South of Market Redevelopment Project Area will depend on the availability of sites and the type of units built. Mr. Grisso further advises that the number of new or rehabilitated affordable units produced through the South of Market Redevelopment Plan will likely range from 175 to 350.

(2) $9,452,000 for the provision of a non-housing program which includes: (a) planning, (b) site preparation and development work, (c) infrastructure improvements, (d) streetscape and public open space improvements throughout the South of Market Redevelopment Project Area, and (e) economic development and building rehabilitation assistance to owners of property within the project area.

The South of Market Redevelopment Plan Affordable Housing Requirement:

The proposed amendment to the South of Market Redevelopment Plan will allocate approximately 78 percent of all tax increment revenue for affordable housing, according to the SFRA's *Report on the Plan Amendment*. State law requires that only 20 percent of tax increment revenue be used for affordable housing and that 15 percent of all housing units developed be affordable housing units. According to Mr. Grisso, affordable housing is defined as (a) rental units for persons and families whose incomes do not exceed 60 percent of the area median incomes, and (b) for-sale units (condominiums) for persons and families whose incomes do not exceed 100 percent of the area median incomes.

The South of Market Redevelopment Project Area:

As previously described, the proposed ordinance would extend the existing South of Market Redevelopment Project Area to include the proposed Western Expansion Area, for a total area of approximately 68.81 acres, generally bounded by Mission Street to the north, Fifth Street to the east, Folsom Street to the south, and

Seventh Street to the West. Page 2 of Attachment I to this report is a map of the proposed project area.

Tax Increment Financing and Tax Increment Allocation:

State law allows the SFRA to utilize tax increment financing for redevelopment projects in legally established project areas.[1] Tax increment financing is a project financing strategy, whereby the SFRA (1) issues debt (tax allocation bonds), subject to Board of Supervisors approval, and (2) uses future incremental Property Tax revenues to repay such debt.

According to Ms. Edel Antiniw of the Controller's Office, currently approximately $0.65 of each dollar generated in Property Tax revenues accrues to the City's General Fund, and the remaining $0.35 accrues to other taxing entities, including the Community College District, the San Francisco Unified School District, the Bay Area Rapid Transit District, and the Bay Area Air Quality Management District. In a SFRA project area, approximately 80 percent of incremental Property Tax revenues generated in subsequent years in excess of the Property Tax revenues generated in the year the redevelopment project began (the base year) is potentially available for allocation to the SFRA for a redevelopment project, subject to approval by the Board of Supervisors; the remaining 20 percent is allocated to the City's General Fund and the other taxing entities as described above.

Approval of the proposed ordinance would amend the existing South of Market Redevelopment Plan to (1) increase the time limit for incurring tax increment indebtedness, and other forms of debt such as loans or advances for the purpose of executing the project plan, by ten years, from 2010 to 2020; (2) increase the time limit for repaying such tax increment indebtedness by ten

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[1] As is required by State Redevelopment Law (Section 33352), in order to establish a project area for tax increment financing, the SFRA has prepared a report, the *South of Market Redevelopment Plan Amendment* Report, that documents that the proposed project area is blighted, as defined in State Redevelopment Law. According to that report, the area overall meets the State standards for blight and thus is eligible to be a redevelopment project area.

years, from 2020 to 2030; (3) increase the total maximum tax increment revenue that can be allocated to the SFRA from the South of Market Redevelopment Project Area from $102,000,000 to $200,000,000; (4) extend the land area subject to tax increment financing to include the Western Expansion Area for a total of Project Area of 68.81 acres under the South of Market Redevelopment Plan; (5) authorize the land use controls outlined in the South of Market Redevelopment Plan; and (6) provide the SFRA with the power of eminent domain over the Project Area, including the Western Expansion Area.

Mr. Mario Menchini of the SFRA advises that, to date, the SFRA has received $52,784,000 in tax increment revenues from the South of Market Project Area. Because the proposed ordinance would increase the total tax increment revenues that can be allocated to the SFRA from the South of Market Redevelopment Project Area by $98,000,000 from a maximum of $102,000,000 to a maximum of $200,000,000, the SFRA would be able to receive a not to exceed additional amount of $147,216,000 ($200,000,000 in maximum tax increment revenues under the proposed ordinance less $52,784,000 in tax increment revenues received to date by the SFRA). Under the existing South of Market Redevelopment Plan, the total remaining tax increment revenues that could be allocated to the SFRA from the South of Market Redevelopment Project Area is $49,216,000 ($102,000,000 in maximum tax increment revenues under the existing Redevelopment Plan less $52,784,000 in tax increment revenues received to date by the SFRA).

Table 1, shown on the following page, compiled by the Budget Analyst based on details contained in the SFRA's *Report on the Plan Amendment*, shows the existing deadlines and the proposed deadlines by which the SFRA would have to exercise their authorities, including the incurrance and repayment of debt.

Table 1: South of Market Earthquake Recovery Redevelopment Project Area Time Limits

Authorization	Existing Deadline	Proposed Deadline
Duration of Housing and Non-Housing Program Activities	2010	2020
Incurring Debt	2010	2020
Repaying Debt	2020	2030

Source: Report on the Plan Amendment, Volume 1, page I-8, September 2005

As shown in Table 1, the proposed ordinance would authorize the SFRA to extend the deadlines to incur and repay tax increment indebteness by ten years from the existing deadlines. State law allows for the proposed 10-year extension to the existing time limits for incurring and repaying debt if SFRA has made the determination that significant blight remains. The SFRA's *Report on the Plan Amendment* contains information regarding SFRA's determination of significant remaining blight in the South of Market Redevelopment Project Area.

As discussed on page 4 of Attachment II, provided by Mr. Grisso (Section VII of the SFRA's *Report on the Plan Amendment*), tax increments generated in the proposed project area would be approximately allocated as follows:

(a) 20 percent to the SFRA for affordable housing purposes;
(b) 60 percent to the SFRA "for any redevelopment purpose;" and
(c) 20 percent to the other taxing entities, referred to as the "pass-through," as shown in Attachment III, provided by Mr. Grisso (Schedule B of Appendix G to the SFRA's *Report on the Plan Amendment*), which is $0.20 of each $1.00 of tax increment, which includes approximately 64.69 percent of the $0.20 to the City (or approximately $0.129),[2] 25.33 percent to the Educational Revenue Augmentation Fund (or

[2] As shown in Attachment IV, provided by Ms. Antiniw, the City's 64.69 percent share of the pass-through includes (a) approximately 56.59 percent to the General Fund and (b) approximately 8.1 percent to other Funds, including the County Superintendent of Schools, the Childrens' Fund, the Library Preservation Fund, and the Open Space Acquisition Fund.

approximately \$0.051),[3] and the remainder to other taxing entities).

Without Board of Supervisors approval of the proposed South of Market Redevelopment Plan Amendment, (a) additional tax revenues generated from increases in assessed valuation in the proposed Western Expansion area would continue to accrue to the City's General Fund and the other taxing entities, as identified in Attachment III; and (b) tax revenues generated between 2010 and 2020, from increases in assessed valuation for the existing South of Market Redevelopment Project Area, excluding the Western Expansion area, would accrue to the City's General Fund and other taxing entities, as identified in Attachment III.

The above described tax increment allocation is governed by State law. The \$0.20 portion of each \$1.00 of tax increment dedicated to the other taxing entities, of which 64.69 percent would be allocated to the City's General Fund, is also required by State law. As previously stated, the proposed ordinance would (a) approve the addition of the Western Expansion area to the South of Market Redevelopment Project Area; and, (b) approve the extension of the SFRA's deadlines for incurring and repaying debt by 10 years, from 2010 to 2020 and from 2020 to 2030, respectively. Without the proposed ordinance, the SFRA would not have the authority to incur debt and use tax increment revenues to repay such debt (a) for the proposed Western Expansion area; (b) for the extended ten years' time; and, (c) increase the maximum tax increment revenue that can be allocated to the SFRA to \$200,000,000.

Estimated Tax Increment Revenue And Bond Proceed Sources And Uses:

Table 2, shown on the following page, compiled by the Budget Analyst based on information provided by Mr. Menchini, is the gross estimated tax increment revenue

[3] Ms. Antiniw advises that the Educational Revenue Augmentation Fund was created in 1993 and provides monies to the San Francisco Unified School District and the San Francisco Community College District.

and associated bond proceeds revenue sources and uses in the proposed project area over the next 25 years.

Table 2: Sources and Uses for Estimated Tax Increment Revenues and Associated Bond Proceeds

	Amount
Sources	
Gross Tax Increment Revenues	$112,530,000
Bond Proceeds	23,918,000
Sources Total	**$136,448,000**
Uses: SFRA Program Costs	
SFRA Non-Housing specific Redevelopment Program-related expenses	$9,452,000
SFRA Affordable Housing Development	34,500,000
Administrative and Personnel Costs	6,924,000
SFRA Program Costs Subtotal	**$50,876,000**
Uses: Other Costs	
Pass-Throughs to Other Taxing Entities	$25,017,000
Tax Increment Obligation to the City and County of San Francisco	28,833,000
Debt Service	31,722,000
Other Costs Subtotal	**$85,572,000**
Uses Total	**$136,448,000**

Mr. Menchini explains that additional detail on the proposed uses of tax increment revenues and bond proceeds is provided in the SFRA's *Report on the Redevelopment Plan Amendment*. According to Mr. Grisso, for the purposes of plan amendment adoption, program costs are generally presented as an overall estimate, rather than projections of annual costs over the 30-year life of the South of Market Redevelopment Plan. Mr. Grisso further advises that should the Board of Supervisors approve the subject ordinance, and adopt the South of Market Redevelopment Plan Amendment, the SFRA will continue to prepare annual budgets for review and approval by the Board of Supervisors, and will also prepare implementation plans every five years, which will include detailed budgets for the above listed uses included in Table 2, for the South of Market Redevelopment Plan. Mr. Donnell Choy of the City Attorney's Office advises that the SFRA's annual budget, including allocations of tax increment revenues and Tax Allocation Bond Proceeds, are subject to Board of Supervisors approval.

Fiscal Impact: The South of Market Redevelopment Plan is financed by the SFRA through a combination of tax increment revenues and the issuance of Tax Allocation Bonds, subject to Board of Supervisors approval, and using a portion of tax increment revenues to repay such bonded indebtedness. In addition, tax increment revenues are used to fund administrative costs of the SFRA on a pay-as-you-go basis. This section explains the fiscal impact to the City by approving the South of Market Redevelopment Plan Amendment. The fiscal impact to the City is explained in terms of the loss of Property Tax revenues to the City's General Fund and the other taxing entities.

Western Expansion Project Area

According to the "Report of the County Fiscal Officer" included in the SFRA's *Report on the Redevelopment Plan Amendment*, the assessed value of secured and unsecured property in the proposed Western Expansion project area is $9,360,179, of which $9,122,401 is the assessed value of secured property and $237,778 is the assessed value of personal unsecured property. The current Property Tax paid from the proposed Western Expansion project area is $106,715 annually, of which $103,995 is from secured property taxes and $2,720 is from unsecured personal property taxes and other Property Tax revenues.

Attachment V, from the SFRA's *Report on the Redevelopment Plan Amendment*, is an estimate of the increase in the assessed value and the corresponding tax increment revenue that the SFRA would receive, as well as the passthroughs that the City and the other taxing entities would receive, over 25 years in the Western Expansion Area if the proposed South of Market Redevelopment Plan Amendment is approved. As shown in Attachment V, under the proposed ordinance, the SFRA would receive approximately $763,000 in total tax increment revenues from properties in the Western Expansion area between 2005 and 2030. Using the tax rates in Attachments III and IV, the Budget Analyst calculates that the $763,000 in tax increment revenues to be received by the SFRA under the proposed ordinance for the Western Expansion Area for secured and unsecured

Property Tax rolls, would, if this proposed ordinance were not approved, accrue to the taxing entities as follows:

(a) City General Fund: $431,768;
(b) Other City Funds, including County Superintendent of Schools, Childrens' Fund, Library Preservation Fund, and Open Space Acquisition Fund: $61,783;
(c) Educational Revenue Augmentation Fund: $193,269;
(d) San Francisco Unified School District General Fund: $58,742;
(e) San Francisco Community College District Fund: $11,021;
(f) Bay Area Rapid Transit District General Fund: $4,826; and
(g) Bay Area Air Quality Management District: $1,591

The $763,000 estimate in Attachment V for the property tax increment revenues to be received by the SFRA assumes (a) a three percent annual increase in the assessed valuation of secured property and (b) no change in the assessed value of unsecured personal property for 25 years. Mr. Grisso advises that the SFRA cannot predict changes to the assessed value of unsecured personal property, which is historically volatile and therefore utilized a no change assumption.

South of Market Project Area, Including the Western Expansion Project Area

Attachment VI, from the SFRA's *Report on the Redevelopment Plan Amendment*, is an estimate of the increase in the assessed value and the corresponding tax increment revenue that the SFRA would receive, as well as the passthroughs that the City and the other taxing entities would receive, over 25 years in the entire South of Market Project Area, including the Western Expansion Project Area, if the proposed South of Market Redevelopment Plan Amendment is approved.

Table 3, shown on the following page, compiled by the Budget Analyst based on Attachment VI, shows (1) the projected tax increment revenues that would accrue (a) to the SFRA and (b) to the City's General Fund and other taxing entities through the passthrough under the proposed ordinance as a result of the ten-year extension of

the South of Market Redevelopment Plan, from 2020 to 2030, (2) the resulting loss in revenues that would otherwise be received by the City's General Fund and other taxing entities, and (3) the difference in revenues to be received between the proposed ten-year extension and the revenues that would otherwise be received.

Table 3: Additional Tax Increment Revenues to Accrue to SFRA, the City's General Fund, and Other Taxing Entities Under the Proposed Ordinance in Years 2020 through 2030

Agency to which revenues accrue	2020 Through 2030 Amount
Proposed:	
San Francisco Redevelopment Agency	$56,964,000
City General Fund	8,134,554
Other City Taxing Entities*	1,163,992
Educational Revenue Augmentation Fund	3,641,204
San Francisco Unified School District General Fund	1,106,711
San Francisco Community College District Fund	207,636
Bay Area Rapid Transit District General Fund	90,926
Bay Area Air Quality Management District	29,977
Proposed Total	**$71,339,000**
Existing:	
San Francisco Redevelopment Agency	$0
City General Fund	40,369,460
Other City Taxing Entities*	5,776,558
Educational Revenue Augmentation Fund	18,070,249
San Francisco Unified School District General Fund	5,492,288
San Francisco Community College District Fund	1,030,436
Bay Area Rapid Transit District General Fund	451,239
Bay Area Air Quality Management District	148,770
Existing Total	**$71,339,000**
Net Increase/(Decrease) of Tax Increment Revenues to the City's General Fund and Other Taxing Entities Under the Proposed Ordinance	
San Francisco Redevelopment Agency	$56,964,000
City General Fund	(32,234,906)
Other City Taxing Entities*	(4,612,566)
Educational Revenue Augmentation Fund	(14,429,045)
San Francisco Unified School District General Fund	(4,385,577)
San Francisco Community College District Fund	(822,800)
Bay Area Rapid Transit District General Fund	(360,313)
Bay Area Air Quality Management District	(118,793)

*Other City Taxing Entities include the County Superintendent of Schools, the Childrens' Fund, the Library Preservation Fund, and the Open Space Acquisition Fund.

Total Estimated Reduced Property Tax Revenues to be Allocated to the City's General Fund: As shown in Table 3 above and in the above section entitled Western Expansion Project Area, the Budget Analyst calculates that, including both (a) the proposed Western Expansion project area and (b) the ten-year extension for tax increment financing to accrue to the SFRA for the South of Market Project Area, the City's General Fund would be allocated $32,666,674 less in estimated Property Tax revenues (a $431,768 decrease in revenues from the Western Expansion project area from 2005 to 2030 plus a $32,234,906 decrease in revenues from the ten-year extension for tax increment financing in the South of Market Project Area from 2020 to 2030). As further shown in Table 3 above and in the section entitled Western Expansion Project Area, the Budget Analyst calculates that, the SFRA would receive total estimated tax increment revenue allocations of $57,727,000 (consisting of $763,000 from the Western Expansion Area plus $56,964,000 from the ten-year extension of the Redevelopment Plan).

According to page 5 of Attachment II, the SFRA used a projected three percent annual property value increase "to account for both new private development and the inflation of assessed property values throughout the Project Area. In comparison, the Project Area experienced a weighted average increase of 5.00% annually for Assessed Property Values (AV) from 1990-2000." Page 5 of Attachment II also states that a significant portion of the five percent average annual compounded growth rate in 1990-2000 was due to "dot-com" businesses locating in the area in 1998-2000 and that, since 2000, the area has seen an economic downtown.

Comment: The Budget Analyst independently conducted an analysis of the growth rate in the assessed value of secured property in the proposed amended South of Market Redevelopment Project Area from 1994 to 2004, or over a ten year period, based on data provided by Mr. Alex Tharayil of the Assessor's Office. Mr. Tharayil provided data that includes the majority of the South of Market Redevelopment Project Area, including the proposed Western Expansion Project Area. Table 4, on the following page, compiled by the Budget Analyst based on

an analysis of the data provided by Mr. Tharayil, shows that the average annual compounded growth rate in the assessed value of secured property was approximately 13.79 percent over the 10 year period from 1994 through 2004, as compared to the three percent average annual compounded growth rate used by the SFRA.

Table 4: Change in Assessed Value of Secured Property, 1994 to 2004

Blocks	1994 Value	2004 Value	Increase in 2004 assessed value over 1994 assessed value
3726	$28,682,333	$113,357,231	$84,674,898
3731-3732	52,638,376	154,834,774	102,196,398
3753-3754	33,449,268	149,691,241	116,241,973
Total	**$114,769,977**	**$417,883,246**	**$303,113,269**
Ten year increase in assessed value of secured property			264.1%
Average annual compounded growth rate			13.79%

Source: Compiled by the Budget Analyst based on data provided by the Assessor's Office.

Using the data presented above, the Budget Analyst has determined that SFRA's projection of a three percent average annual compounded growth rate, in assessed secured property values through the year 2030 (representing the proposed duration of the South of Market Redevelopment Plan), has been significantly understated based on the Project Area's historical assessed secured property values. According to Mr. Grisso, the SFRA utilized a three percent average annual compounded growth rate in assessed secured property values as a conservative estimate in establishing a budget of $50,876,000 for the South of Market Redevelopment Plan (see Table 2 above and page 2 of Attachment II).

According to an analysis conducted by Mr. Menchini and provided to the Budget Analyst, using a projected average annual compounded growth rate of 13.79%, the SFRA would be eligible to be allocated approximately $318,263,000 in additional tax increment revenues. The Budget Analyst notes, however, that, as stated in the Tax Increment Financing and Tax Increment Allocation section above, under this proposed ordinance, the SFRA would have a total maximum tax increment revenue limit of $200,000,000. Given that, as noted above, the SFRA has already been allocated $52,784,000 in tax increment revenues from the South of Market Redevelopment Project Area, under this proposed ordinance the total

remaining maximum tax increment revenues, that could be allocated to the SFRA from the Project Area, is an amount not to exceed $147,216,000 ($200,000,000 in maximum tax increment revenues less $52,784,000 in tax increment revenues collected to date).

The Budget Analyst calculates that, if the proposed ordinance were approved and the SFRA were authorized to receive an additional not to exceed amount of $98,000,000 in tax increment revenues, the City's General Fund could be allocated up to $55,456,442[4] less in estimated Property Tax revenues, instead of a reduction of $32,666,674.

Recommendation: Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Approval of the proposed ordinance would mean that the Board of Supervisors concurs that the City's General Fund should be allocated an estimated $32,666,674 less in Property Tax revenues (a) through the year 2030 or over the next 25 years in the Western Expansion area and (b) for the years 2020 though 2030 in the entire South of Market Redevelopment Project Area in exchange for achieving the proposed South of Market Redevelopment Plan Amendment. According to the SFRA, approval of the South of Market Redevelopment Plan Amendment would result in a project which is projected to generate between 175-350 new affordable housing units using tax increment revenues that would accrue to the SFRA.

As shown in Table 4 above and as noted in the Comment Section above, the average annual compounded growth rate in the assessed value of secured property in the South of Market Redevelopment Project Area has been 13.79 percent between 1994 and 2004. Therefore, the total estimated tax increment revenue allocations to the SFRA of $57,727,000, under the proposed amendment to the South of Market Redevelopment Plan (consisting of $763,000 from the Western Expansion Area, as shown in the Western Expansion Project Area section of this report, plus $56,964,000 from the ten-year extension of the

[4] $55,456,442 is $98,000,000 in tax increment revenues times the City's General Fund portion of such revenues of 0.56588206, as shown in Attachment IV.

Redevelopment Plan, as shown in Table 3), could be significantly understated since the SFRA used an estimated three percent annual increase in property values for the project area, as compared to the 13.79 average annual compounded rate as independently calculated by the Budget Analyst.

As noted in the Comment section above, under the proposed ordinance to amend the South of Market Redevelopment Plan, using an average annual compounded rate of 13.79 percent to reflect projected property value increases in the Project Area, the City's General Fund could receive a reduction of up to $55,456,442 in property tax revenues, instead of a reduction of only $32,666,674, which was based on the SFRA using a three percent average annual compound rate to reflect property value increases. It should be noted that all allocations of tax increment revenues to the SFRA are subject to Board of Supervisors budgetary approval.

Harvey M. Rose

cc: Supervisor Ammiano
Supervisor Mirkarimi
Supervisor Elsbernd
President Peskin
Supervisor Alioto-Pier
Supervisor Daly
Supervisor Dufty
Supervisor Ma
Supervisor Maxwell
Supervisor McGoldrick
Supervisor Sandoval
Clerk of the Board
Controller
Noelle Simmons
Ted Lakey
Cheryl Adams

I. INTRODUCTION

A. Purpose

This document is the Report on the proposed South of Market Redevelopment Plan Amendment ("Report on the Plan Amendment" or "Report"), an amendment of the South of Market Earthquake Recovery Redevelopment Plan, and has been prepared by the San Francisco Redevelopment Agency ("Agency") pursuant to Section 33352 of the California Community Redevelopment Law ("CRL") [Health and Safety Code, Section 33000 *et seq*.]. The Report on the Plan Amendment is an important part of the process of amending the South of Market Earthquake Recovery Redevelopment Plan ("South of Market Redevelopment Plan Amendment" or "Plan Amendment"). It is a public document designed to provide comprehensive background information on the Plan Amendment and related redevelopment program to members of the San Francisco Board of Supervisors, the San Francisco Redevelopment Agency ("Agency") Commission, the Planning Commission, other governmental bodies, affected taxing entities[1], and other interested parties. The Report on the Plan Amendment, and the Preliminary Report which preceded it, are of value to all participants in the Plan Amendment process as a statement of program needs, goals, activities and costs for the South of Market Redevelopment Project ("Project").

The Plan Amendment proposes to convert an earthquake recovery area, currently the South of Market Earthquake Recovery Project Area ("Project Area"), to a redevelopment project area to authorize the Agency to use tax-increment financing to alleviate physical and economic conditions of blight, related or not to the 1989 Loma Prieta Earthquake, and includes the authority to use eminent domain to alleviate these blighting conditions. The Plan Amendment also proposes to expand the boundaries of the existing Project Area to include the Western Expansion Area redevelopment survey area (collectively "Proposed Project Area") (see Figure I-2). In order to finance projects and programs that would alleviate the conditions of blight in the Proposed Project Area, the Plan Amendment also includes:

- An extension of the expiration date of the redevelopment plan by 10 years, from June 11, 2010 to June 11, 2020;
- Extensions of the deadlines for the Agency to incur and repay indebtedness secured by tax increment funds;
- And increases in the aggregate amount of tax increment the Agency may receive (from \$102,000,000 to \$200,000,000) and the maximum amount of bonded indebtedness the Agency may have outstanding at any one time (from \$60,000,000 to \$80,000,000).

[1] An affected taxing entity is any governmental taxing entity (sometimes referred to as a taxing agency) that levies property taxes on all or portion of a property located within the Project Area in the fiscal year prior to the adoption of a redevelopment plan, or in this case, a plan amendment. Taxing entities in the City and County of San Francisco include the City and County of San Francisco, the San Francisco Community College District, the Bay Area Air Quality Management District, the San Francisco Unified School District, and the Bay Area Rapid Transit District.

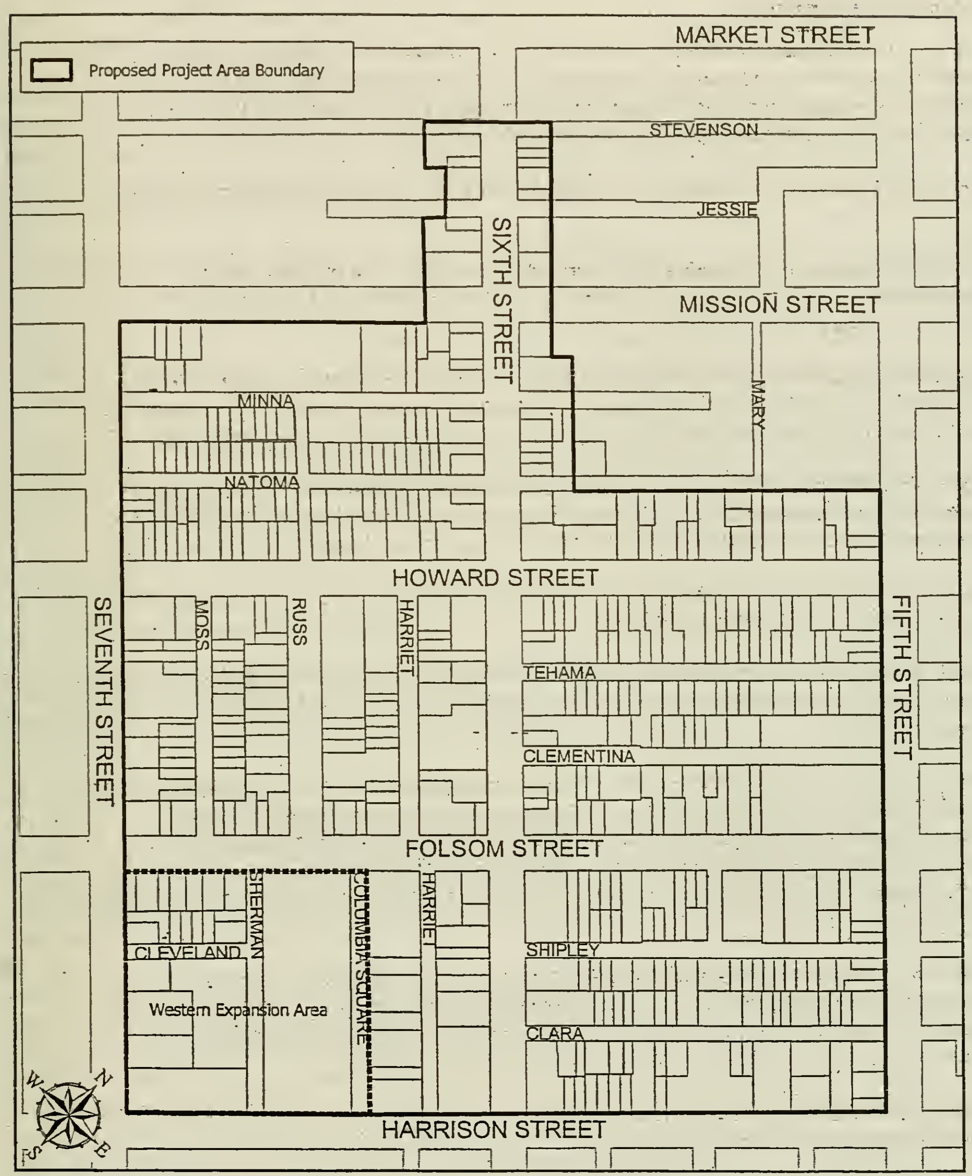


FIGURE I-2
Boundary Map

Proposed South of Market Redevelopment Project Area

B. Report Organization

Chapter 1: Introduction (this chapter) presents a general overview and background for the Plan Amendment, describes the Proposed Project Area and the Plan Amendment, reports on the Plan Amendment's financial limits and time limits, summarizes the plan amendment process, and describes how the Report fulfills the requirements of the CRL.

Chapter II: Project Area Selection describes the reasons for selecting the Proposed Project Area.

Chapter III: Report on Urbanization describes (in text, table and map) the extent of urbanization in the Proposed Project Area and how the Proposed Project Area meets the urbanization requirements of the CRL.

Chapter IV: Adverse Physical Conditions provides detailed information on the extent of physical blighting conditions in the Proposed Project Area. It also discusses factors affecting the Proposed Project Area that have contributed to the described physical blighting conditions.

Chapter V: Adverse Economic Conditions provides detailed information on the extent of economic blighting conditions in the Proposed Project Area. It also discusses factors affecting the Proposed Project Area that have contributed to the described economic blighting conditions.

Chapter VI: Redevelopment Program Description presents the redevelopment program to be carried out pursuant to the Plan Amendment.

Chapter VII: Methods of Project Financing and Feasibility demonstrates that the cost of the redevelopment program is feasible within available funding resources and describes the need for tax increment financing.

Chapter VIII: Five-Year Implementation Plan incorporates by reference the Implementation Plan, which outlines statutory requirements for non-housing as well as affordable housing activities. It sets forth the Agency's goals, objectives, programs and expenditures for the Agency's initial five-year implementation plan period, including program priorities and expenditure estimates for the five-year period. The Implementation Plan is attached as Appendix D of this Report.

Chapter IX: Relocation Program summarizes the program for relocation of persons or businesses that may be displaced due to redevelopment activities and incorporates by reference the Agency's Relocation Program, including the Relocation Assistance Rules attached as Appendix E.

Chapter X: Preliminary Plan presents a summary and analysis of the Preliminary Plan. The Preliminary Plan is attached as Appendix F.

Chapter XI: Planning Commission Report and Actions lists required Planning Commission Report and Recommendations, which are attached as Appendix K.

Chapter XII: Summary of Consultations with the Project Area Committee summarizes public review of the Plan Amendment, specifically public review through the elected South of Market Project Area Committee ("PAC").

Chapter XIII: Environmental Review contains, by reference, the South of Market Redevelopment Plan Amendment Final Environmental Impact Report ("FEIR") and its associated environmental documents that have been prepared in accordance with the California Environmental Quality Act ("CEQA") for the Plan Amendment. The Final Supplement to the FEIR is attached as Appendix H of this Report.

Chapter XIV: Analysis of the Report of the County Fiscal Officer describes and analyzes the Report of the County Fiscal Officer, which is included as Appendix G.

Chapter XV: Summary of Consultations with Taxing Entities describes the Agency's consultations with affected taxing entities. Correspondence with the taxing entities is attached as Appendix J.

Chapter XVI: Neighborhood Impact Report states the requirement for a Neighborhood Impact Report and incorporates the Neighborhood Impact report by reference. The Report is included as Appendix I.

C. The Proposed Project Area and Plan Amendment

1. Proposed Project Area Location

The Proposed Project Area is located south of Market Street and is generally bounded by Fifth Street to the east; Seventh Street to the west; Harrison Street to the south; and Mission Street, Natoma Street and Stevenson Street to the north (Figure I-2, Location Map).

2. Proposed Project Area Description

The 68.81-acre Proposed Project Area is located in the central city area of San Francisco. Its focus is the Sixth Street corridor, a mixed-use community located south of Market Street up to Harrison Street, which is characterized by a prevalence of older commercial and residential buildings, including many single room occupancy ("SRO") residential hotels and several commercial and light industrial uses.

The Proposed Project Area contains approximately 423 parcels[2] and 381 buildings. Some parcels have more than one building, and approximately 47 parcels function as parking lots, storage lots, vacant lots or have buildings currently in some phase of construction. According to results of a 2002 field survey, more than half (53%) of the land use, not including streets, in the Proposed Project Area is residential. This includes detached and attached housing units, SRO residential hotels, and live/work units. More than one-third (38%) of the land use is commercial, including land uses such as tourist hotels and motels, offices, and retail stores. The remaining land uses, less than ten percent (9%), comprise all other land use categories: parking lots,

[2] Exact number of parcels in the Proposed Project Area may change over time due to parcel splits and/or mergers initiated by property owners.

public/institutional uses (schools, recreation centers, churches, etc.), industrial, warehouse, and vacant lots.

The Western Expansion Area is a redevelopment survey area located between Columbia Square and Seventh, Folsom and Harrison Streets, in the southwest corner of the Proposed Project Area. Several deteriorated structures, including the Bessie Carmichael Elementary School, are located in this area, and a new public park and school have been proposed for this area for several years. Tax increment funds may be necessary to address conditions of blight in this area. Inclusion of the Western Expansion Area into the Project Area would also allow for a more effective redevelopment program, since the boundaries of the Proposed Project Area would be demarcated by the main arterials traversing the area and defining its neighborhoods, Seventh and Harrison Streets.

3. Redevelopment Plan Amendment

The Board of Supervisors adopted the South of Market Earthquake Recovery Redevelopment Plan on June 11, 1990, in response to the Loma Prieta Earthquake in October 1989. Under the Community Redevelopment Financial Assistance and Disaster Project Law provisions of the CRL, the redevelopment plan was adopted solely for the purposes of repairing, restoring, and/or replacing buildings and physical infrastructure damaged by the earthquake, and to provide economic development assistance to neighborhood-serving businesses and related establishments.

In an effort to expand the revitalization efforts in the earthquake recovery project area to properties not directly affected by the earthquake, the Agency has been working to amend the existing Plan. Since the Agency contemplated that the Plan Amendment would potentially result in the relocation or displacement of low- and moderate-income households, the San Francisco Board of Supervisors adopted the "Articles of Formation for a Redevelopment Project Area Committee for the South of Market Redevelopment Project" on March 28, 1997. The Project Area Committee ("PAC") election was held on April 24, 1997. The Agency has been working closely with the PAC on the Plan Amendment.

The Plan Amendment seeks to enhance the Agency's role in providing affordable housing opportunities, increasing opportunities for community service facilities to meet the demands of a growing and diverse residential population, and implementing revitalization efforts on Sixth Street to encourage a mixed-use, neighborhood-serving business district. The PAC endorsed the Plan Amendment at its March 28, 2005 meeting. The Agency Commission, the Planning Commission and the San Francisco Board of Supervisors are expected to consider approval of the Plan Amendment, in accordance with the CRL.

After receiving the recommendation of the Planning Commission, approval by the Agency Commission, and adoption by the Board of Supervisors, the Plan Amendment will:

- Alleviate the existence and inhibit recurrence of the physical and economic blighting conditions described in the Preliminary Report.
- Achieve redevelopment goals and objectives for revitalizing the Proposed Project Area.
- Assist in furthering the goals and objectives of the City's General Plan.

D. Summary of the Plan Amendment

The Plan Amendment would enhance the ability of the Agency to implement a comprehensive program to alleviate the adverse conditions of blight in the Proposed Project Area. The Plan Amendment would convert the earthquake recovery Project Area to a standard redevelopment project area, expand the boundaries of the existing earthquake recovery Project Area, establish goals and objectives to alleviate physical and economic conditions of blight, authorize the Agency's use of eminent domain in certain limited circumstances, and increase the tax increment and bonded indebtedness caps and the time limits by which the Agency can incur and retire tax increment financing to fund its program in the Proposed Project Area. The main elements anticipated to implement the Plan Amendment's redevelopment program are outlined below, organized according to the goals and objectives contained in the Plan Amendment.

a. **Improve residential conditions and encourage residential activity**

- Owner Participation Program and rehabilitation loans
- Acquisition for rehabilitation and new construction
- Financial assistance for private residential development

b. **Improve economic conditions and encourage business activity**

- Business improvement loans
- Tenant improvement and façade improvement loans
- Job training and placement assistance
- Entrepreneurial assistance

c. **Promote area quality of life and social services**

- Cultural and community uses
- Supportive housing services
- Bessie Carmichael School and Victoria Manalo Draves Park
- Community-based crime prevention
- Sidewalk cleaning
- Disaster Preparedness
- Community-building

d. **Address infrastructure and transportation needs**

- Sixth Street sidewalk improvements
- Neighborhood parking garage

e. **Assure appropriate neighborhood land uses and design**

- Design Guidelines
- Coordinate with the Planning Department
- Project Area Committee's advisory role

E. Plan Amendment Financial and Time Limits

The Plan Amendment establishes new financial and time limits for the Proposed Project Area. For the area covered by the existing redevelopment plan, these limits are 2020 for debt issuance and 2030 for receipt of tax increment. For the Western Expansion Area, these limits are, from the effective date of the Plan Amendment: 20 years for debt issuance and 45 years for receipt of tax increment. The Plan Amendment establishes 2020 as the limit for redevelopment activities for the entire Proposed Project Area. The Plan Amendment would allow the Agency to have a maximum of $80 million in debt secured by tax increment outstanding at any one time, and increases the cap on the Agency's receipt of tax increment revenues from $102 million to $200 million.

F. Overview of the Plan Amendment Process

Adopting or amending a redevelopment plan involves complex, statutorily mandated procedures and documentation designed to provide a community's legislative body with the necessary analysis and input to make informed decisions about the purpose, scope and content of a proposed redevelopment plan or amendment and ultimately, about whether to adopt the plan or amendment.

This section briefly describes the reports and steps in the plan amendment process:

- **Survey Area Designation**

The Board of Supervisors designates the survey area, and the Planning Commission selects boundaries for the proposed project area.

- **Preparation, Adoption and Amendment of a Preliminary Plan**

In cooperation with the Agency, the Planning Commission adopts a preliminary plan providing a general description of land uses, redevelopment goals and objectives, and a map and legal description of the proposed project area boundaries. Prior to the adoption of a plan amendment, the Planning Commission adopts a revised amended preliminary plan providing a general description of land uses, redevelopment goals and objectives, and a map and legal description of the proposed project area boundaries.

- **Statement of Plan Preparation and County Auditors Report**

The Agency must formally notify the State Board of Equalization ("SBE") and all affected taxing entities of the Agency's intention to prepare a redevelopment plan or plan amendment for a specifically proposed project area. The statement includes a boundary map, a legal description of those boundaries, and a statement setting forth the last equalized assessment roll (known as the "base year assessment roll") it proposes to use for the allocation of taxes. In response to the Agency's Statement of Plan Preparation, the County Auditor, in this case, the San Francisco Controller's Office, prepares and delivers a report showing the assessed valuation of all taxable

property proposed to be included in the project area as shown on the base year assessment roll, the identification of all agencies levying taxes in the project area, and related information. This information forms the basis for discussions between the affected taxing entities, tax-increment projections and the proposed redevelopment program's financial feasibility analysis.

- **Environmental Review**

Under Section 33352(k) of the CRL, the plan amendment must be accompanied by a report required by Section 21151 of the Public Resources Code, which in this case, is an environmental impact report ("EIR"), a supplement to the EIR and related environmental documents, prepared in accordance with the California Environmental Quality Act ("CEQA").

- **Formation of a Project Area Committee**

The CRL requires the formation of an elected project area committee to make recommendations on any proposed redevelopment plan or redevelopment plan amendment that allows the use of eminent domain over residential property in a project area with a substantial number of low- and moderate-income residents, or that contains one or more public projects that will displace a substantial number of low-income persons or moderate-income persons or both. Where a PAC exists, new elections need not be held.

- **Redevelopment Plan Amendment**

Agency staff prepares the plan amendment. The amended redevelopment plan is the legal document setting forth the basic goals, powers and limitations within which the Agency must conduct its activities over the life of the redevelopment project.

- **Preliminary Report**

The preliminary report describes the purpose of the proposed redevelopment plan amendment to the public and the affected taxing entities, including the conditions of blight in the proposed project area and the means of alleviating such blight. The information in this report, as updated, is incorporated into the report on the plan amendment.

- **Taxing Entity Consultation**

Agency staff consults with affected taxing entities.

- **Report on the Plan Amendment**

The report on the plan amendment is designed to help the Agency Commission and the Board of Supervisors make informed decisions on the adoption of the plan amendment. It consists of updated information from the Preliminary Report, a Five-Year Implementation Plan, and additional chapters addressing specific procedures and documentation required by the CRL.

- **Review of Plan Amendment and Adoption of Report and Recommendations by the Planning Commission**

The Planning Commission reviews the plan amendment for consistency with the city's general plan and may adopt a report with recommendations to be considered by the Redevelopment Agency Commission and the Board of Supervisors.

- **Public Hearing on and Approval of the Plan Amendment by the Agency Commission**

The Agency holds a duly noticed public hearing to approve the plan amendment and forwards the plan amendment and the report on the plan amendment to the Board of Supervisors.

- **Public Hearing on and Adoption of the Plan Amendment by the Board of Supervisors**

The Board of Supervisors holds a duly noticed public hearing to adopt the plan amendment by ordinance and forwards the ordinance to the Mayor for signature.

G. Public Agency Actions to Date and Pending

The following major public agency actions related to the proposed Plan Amendment have occurred to date or are expected to occur before the end of 2005:

- **Survey Area Designation**

The Board of Supervisors designated the original South of Market Survey Area by Resolution No. 177-90 on March 15, 1990. The original Survey Area boundary encompasses the same boundary as the South of Market Earthquake Recovery Redevelopment Project Area as adopted by Ordinance No. 234-90 on June 11, 1990. The Board of Supervisors amended the Survey Area by Resolution 951-92 on November 13, 1992 to include both the Western Expansion Area and the Eastern Expansion Area.

- **Preparation, Adoption and Amendment of a Preliminary Plan**

Under the provisions of Community Redevelopment Disaster Project Law, the original South of Market Earthquake Recovery Redevelopment Plan did not require a preliminary plan. The Planning Commission subsequently adopted the Preliminary Plan, included both the Eastern and Western expansion areas, for the Proposed Project Area by Motion No. 14283 on January 16, 1997. The Planning Commission amended the Preliminary Plan on January 13, 2005 by Motion No. 16928 to reflect the current Proposed Project Area boundaries.

- **Statement of Plan Preparation and County Auditors Report**

Pursuant to Section 33327 of the CRL, on December 6, 2000, the Agency transmitted to the Board of Supervisors, the Controller, the Assessor, the Tax Collector of the City and County of San Francisco, the State Board of Equalization, and to all other affected taxing agencies, a Statement of Preparation outlining the intention of the Agency to amend the Redevelopment Plan and to expand the boundaries of the existing project area and to have it adopted pursuant to the CRL.

On October 31, 2003, the Agency transmitted a letter to the State Board of Equalization and the Controller's Office of the City and County of San Francisco, notifying them of the Agency's intent to utilize the 2003-2004 base year for those properties in the Western Expansion Area. In addition, the Agency delivered to all affected taxing agencies, via certified mail, copies of the Plan Amendment and the Preliminary Report for the Plan Amendment, which indicated the Agency's intent to utilize tax-increment financing and to use Fiscal Year 2003-2004 as the base year for the Western Expansion Area. Subsequently, the Agency transmitted a follow up letter stating that the intended base year for the Western Expansion Area was Fiscal Year 2004-2005. Finally, the Agency transmitted a second follow up letter stating that the intended base year for the Western Expansion Area is Fiscal Year 2005-2006.

In accordance with CRL Section 33328, the Office of the Controller prepared the Report of the County Fiscal Officer on Assessed Values and Tax Revenues related to the South of Market Plan Amendment and Project Area and transmitted it to the Agency and the affected taxing entities on August 5, 2005.

- **Environmental Review**

On September 20, 1996, the Planning Department published and distributed the Draft EIR on the proposed plan amendment. A joint public hearing by the Agency and the Planning Commission was held on October 24, 1996, at which public testimony was given. During the 46-day public review period for the Draft EIR, written comments were received and revisions were published on January 16, 1997. The Planning Commission and the Agency reviewed and determined that the Final EIR complied with the California Environmental Quality Act ("CEQA") provisions, and certified the Final EIR on January 23, 1997.

Subsequent to Final EIR certification, the Agency and the Planning Department prepared a Mid-Market and South of Market Redevelopment Area Transportation Study (Transportation Study) in 2002 to review transportation impacts associated with the proposed Mid-Market Redevelopment Project Area and a modified project description for the proposed SOM Plan Amendment. In addition, the Planning Department and the Redevelopment Agency prepared a Draft Supplement to the 1997 Final EIR in 2004 to review environmental impacts associated with a modified Project Description. The Supplement was certified as final by the Planning Commission on January 13, 2005 and by the Redevelopment Agency Commission on January 18, 2005.

- **Formation of a Project Area Committee**

Section 33385 of the CRL requires a legislative body to form a PAC when either: 1) a substantial number of low- or moderate-income persons reside within the Project Area and the Redevelopment Plan will contain the authority to acquire property by eminent domain; or 2) the Redevelopment Plan contains at least one public project that will displace a significant number of low- and/or moderate-income persons.

The PAC reviews and advises the Agency on the proposed Plan Amendment and Plan implementation activities.

Since the Plan Amendment could potentially result in the relocation or displacement of low- and moderate-income households, the San Francisco Board of Supervisors adopted the "Articles of Formation for a Redevelopment Project Area Committee for the South of Market Redevelopment Project" on March 28, 1997.

Section 33385(b)(2) of the CRL requires the Agency to conduct a minimum of one public meeting to explain the establishment of, functions of, and opportunity to serve on the PAC. In accordance with the CRL requirements, the Agency held public information meetings on April 10, 1997 and April 17, 1997, to provide information on the PAC process, and to register voters and candidates. The PAC election was held on April 24, 1997. Agency staff, in conjunction with the staff of the Registrar of Voters, conducted the election in conformity with the City and County of San Francisco's Election Procedures. The Board of Supervisors ratified the PAC election on May 27, 1997. PAC meetings were held beginning in June 1997. Between June 1997 and December 2004 the PAC met 100 times and PAC subcommittees met nearly 500 times.

The PAC endorsed the Plan Amendment on April 21, 2003. On December 15, 2003, the PAC approved the revised draft Plan Amendment with changes. In January through March 2004, the Agency supplemented previous community outreach efforts with additional informational meetings and mailings about the proposed Plan Amendment. In response to specific community concerns regarding the Agency's power of eminent domain and the Agency's comprehensive building survey documenting physical and economic blight, the Agency emphasized its limited eminent domain policy authority under the proposed Plan Amendment and conducted a resurvey of buildings in the Project Area in February and March 2004. Finally, and in order to address continuing concerns from Project Area property owners, the PAC voted on March 28, 2005, to further amend and restrict the eminent domain provisions in the Plan Amendment.

- **Adoption of Plan Amendment and Report by Agency Commission**

On May 3, 2005, the Agency Commission approved the Plan Amendment and the Report on the Plan Amendment and authorized the transmittal of both documents to the Board of Supervisors. However, the Board was unable to schedule hearings on the Plan Amendment during Fiscal Year 2004-05. As a result, the Agency was required to request a Report of the County Fiscal Officer for Fiscal Year 2005-06 and prepare new background documents for the Plan Amendment using the new base year. The Agency Commission must adopt the Plan Amendment and the Report on the Plan Amendment again due to the change in the base year. In addition, because the total assessed value of the Proposed Project Area in Fiscal Year 2005-06 is lower than it was in Fiscal Year 2004-05, CRL Section 33328.5 requires that the Agency prepare a new Preliminary Report.

H. How the Report on the Plan Amendment Satisfies the Requirements of the Community Redevelopment Law

This Report on the Plan Amendment is designed to comply with state law requirements, codified in CRL Section 33352, which requires that a redevelopment plan or plan amendment submitted

by an agency to the legislative body be accompanied by a report containing documentation specified in the section of law. Below is a listing of the Report requirements and a description of how this Report is organized to meet these requirements. (Excerpts from the CRL are *italicized* and referenced.)

1. Reasons for Selecting the Project Area and Report on Urbanization

The reasons for the selection of the project area, Section 33352(a)

The reasons for selecting the Proposed Project Area are presented in Chapter II, Project Area Selection. Chapter III, Report on Urbanization, provides documentation on the extent of urbanization in the Proposed Project Area. The documentation demonstrates that the Proposed Project Area meets the urbanization requirements specified in Section 33320.1.

2. Physical and Economic Conditions in the Project Area

A description of the physical and economic conditions existing in the project area. The description shall include a list of the conditions described in Section 33031 that exist within the project area and a map showing where in the project the conditions exist. Section 33352(b)

The evidence provided in Chapter IV, Adverse Physical Conditions, Chapter V, Adverse Economic Conditions, and Appendix C, Photographic Documentation, demonstrates that the Proposed Project Area has adverse physical and economic conditions sufficient to support a finding that the area is blighted in accordance with CRL Sections 33031(a) and (b). The adverse conditions summarized in various exhibits throughout Chapters IV and V and Appendix C together constitute the blighting conditions description and map, as required by CRL Section 33352(b).

3. Proposed Projects and Blight Alleviation

...a description of the specific project or projects then proposed by the agency, a description of how these projects will improve or alleviate the conditions described in subdivision (b). Section 33352(a)

Chapter VI, Redevelopment Program Description, provides descriptions of the projects and activities proposed by the Agency as a means to alleviate adverse conditions within the proposed Project Area. Preliminary cost estimates for these projects and activities are also provided. In addition, Chapter VI links proposed projects and activities with identified blighting conditions and demonstrates how the Agency proposes to use redevelopment to alleviate blighting conditions in the Proposed Project Area.

4. Proposed Method of Financing and Feasibility

An explanation of why the elimination of blight and the redevelopment of the project area cannot reasonably be expected to be accomplished by private enterprise acting alone or by the legislative body's use of financing alternatives other than tax increment financing. Section 33352(d)

The proposed method of financing the redevelopment of the project area, in sufficient detail so that the legislative body may determine the economic feasibility of the plan, Section 33352(e)

Chapter VII, Proposed Method of Financing and Feasibility, describes the proposed method for financing the Plan Amendment. Estimated Redevelopment Program costs are compared with available funding sources. The analysis demonstrates the economic feasibility of the Project. Chapter VII also includes the reasons why redevelopment and tax increment financing are necessary to eliminate blight and accomplish the goals and objectives of the proposed Plan Amendment.

5. Implementation Plan

An implementation plan that describes specific goals and objectives of the agency, specific projects then proposed by the agency, including a program of actions and expenditures proposed to be made within the first five years of the plan, and a description of how these projects will improve or alleviate the conditions described in Section 33031. Section 33352(c)

Chapter VIII discusses the requirement for an implementation plan. Appendix D presents the Five-Year Implementation Plan. The non-housing and housing program priorities and expenditures for the five-year implementation period are included in the Implementation Plan.

6. Method or Plan for Relocation

A method or plan for the relocation of families and persons to be temporarily or permanently displaced from housing facilities in the project area, which method or plan shall include the provision required by Section 33411.1 that no persons or families of low and moderate income shall be displaced unless and until there is a suitable housing units available and ready for occupancy by the displaced person or family at rents comparable to those at the time of their displacement. Section 33352(f)

Chapter IX discusses the Agency's relocation plan and the Agency's Relocation Program is included in the Report as Appendix E.

7. Analysis of the Preliminary Plan

An analysis of the preliminary plan. Section 33352(g)

Chapter X of this report provides an analysis of the Preliminary Plan. The Preliminary Plan is included in this Report as Appendix F.

8. Planning Commission Report and Actions

The report and recommendations of the planning commission. Section 33352(h)

The report required by Section 65402 of the Government Code. Section 33352(j)

Chapter XI of this report discusses the Planning Commission report and actions. The Planning Commission's report and resolution finding the Redevelopment Plan in conformance with the General Plan is attached as Appendix K.

9. Summary of Consultations with the Project Area Committee

The summary referred to in Section 33387. Section 33352(i)

A summary of the meetings of the PAC and other public meetings is contained in Chapter XII of this Report.

10. Environmental Review

The report required by Section 21151 of the Public Resources Code. Section 33352(k)

Chapter XIII of this report discusses the environmental review requirements that apply to the proposed Plan Amendment, and incorporates by reference the Final EIR, the Final Supplement and associated documents into this Report. The Final Supplement is included as Appendix H.

11. Report of the County Fiscal Officer and Analysis of the Report

The report of the county fiscal officer as required by Section 33328. Section 33352(l)

An analysis by the agency of the report submitted by the county as required by Section 33328, ... Section 33352(n)

Chapter XIV includes the analysis of the Report of the County Fiscal Officer. The Report of the County Fiscal Officer is included in this Report as Appendix G.

12. Summary of Consultations with Taxing Entities

...a summary of the consultation of the agency, or attempts to consult by the agency, with each of the affected taxing entities as required by Section 33328. If any of the affected taxing entities have expressed written objections or concerns with the proposed project area as part of these consultations, the agency shall include a response to these concerns, additional information if any, and, at the discretion of the agency, proposed or adopted mitigation measures. Section 33352(n)

A summary of consultations with affected taxing entities is contained in Chapter XV of this report. Appendix J includes copies of correspondence the Agency has had with the taxing entities concerning the proposed adoption of the Plan Amendment.

13. Neighborhood Impact Report

If the project area contains low- or moderate-income housing, a neighborhood impact report which describes in detail the impact of the project upon the residents of the project area and the

surrounding areas, in terms of relocation, traffic circulation, environmental quality, availability of community facilities and services, effect on school population and quality of education, property assessments and taxes, and other matters affecting the physical and social quality of the neighborhood. Section 33352(m)

Chapter XVI of this report discusses the requirement for the neighborhood impact report. The Neighborhood Impact Report is included in this Report as Appendix I.

VII. METHOD OF PROJECT FINANCING AND FEASIBILITY

A. General Financing Methods Available to the Agency

In accordance with CRL Section 33352 (e), this chapter describes the proposed methods of financing the redevelopment of the Proposed Project Area in sufficient detail that the Agency and the Board of Supervisors may make a determination regarding the economic feasibility of the Plan Amendment.

The analysis provided in this section is based on a financial model that indicates the redevelopment program contemplated under the proposed Plan Amendment is financially feasible under various assumptions. These assumptions include historical trends of assessed property valuation, the generation of tax increment revenue from plan inception in 1990, the economic climate of the area and the city overall, the timing of new development, the sequence of the Agency's implementation of the program, long range revenue projections, the current and projected bond indebtedness created by the Agency to facilitate the financing of the program, the previous fiscal merger with the Golden Gateway and Federal Office Building Project Areas, project cost estimates, and escalation.

The financial feasibility analysis is illustrated in Tables VII-2 through VII-5, "Existing South of Market Redevelopment Area Tax Increment Projections and Debt Capacity Calculations," "SOM Western Expansion Area Tax Increment Projections and Debt Capacity Calculations," "Sources and Uses of Funds Showing Debt Capacity Available to Support Bonds," and "Sources and Uses of Funds Showing Bond Proceeds as Funding Source." The various tables and figures are based upon anticipated development within the Proposed Project Area, costs of program activities, and outstanding debt allowances within South of Market. The actual implementation of the proposed program activities may vary depending upon public policy priorities, actual realization of revenues, and real estate and economic market conditions.

The Plan Amendment authorizes the Agency to finance the Project from various sources, including tax increment revenue, interest income, contributions from private sources, assistance from local, state and federal governments, the sale or lease of Agency-owned property, financial participation in new developments, loans and advances from private financial institutions and/or the City, or any other sources available to the Agency.

The Agency, when creating indebtedness to carry out the redevelopment program, is authorized to pay principal and interest on such indebtedness from tax increment or any other funds available to the Agency. Based upon the analysis, tax increment financing is an essential source for funding the Plan Amendment.

Based upon review of the development trends, private sector investment has supported the development of private market-rate housing development within certain segments of the

Project Area and surrounding neighborhoods. However, in comparison to other contiguous project areas and surrounding neighborhoods, the core of the South of Market Project Area along the Sixth Street corridor has not historically been the beneficiary of extensive new development. This may be attributed to the physical and economic blight within the area. To date, private enterprise has not had enough of a substantial impact to spur the overall redevelopment or revitalization of the area. The use of the various financing methods available to the Agency is required to support the funding of the proposed projects and thereby alleviate the conditions of blight that have hindered positive development and economic growth.

B. Estimated Cost of the Proposed Redevelopment Program

The estimated cost to carry out the program activities are described in this section, shown on Table VII-1 and incorporated into the cash flow analysis shown in Tables VII-2 and VII-3, along with the associated costs of debt service.

Table VII-1. SOUTH OF MARKET REDEVELOPMENT PROGRAM COSTS (2005-2020)

EXPENDITURE CATEGORIES	COST
Housing	$34,500,000
Implementation Planning	$115,000
Economic Development	$3,812,500
Community Services	$750,000
Public Infrastructure	$1,100,000
Community Outreach & Interaction	$3,674,500
Non-Housing Subtotal:	$9,452,000
Total Work Program	**$43,952,000**
Agency Administrative Costs	6,924,000
Total Agency Program Cost	**$50,876,000**

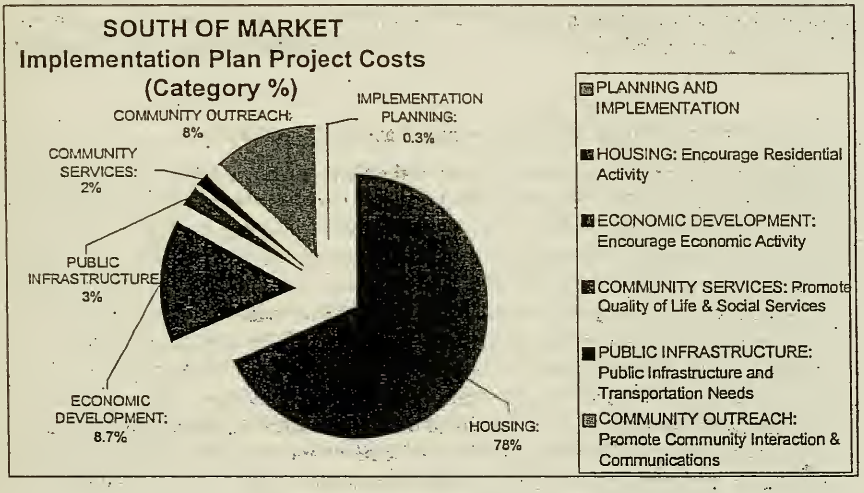
1. Program Implementation Costs

Implementation costs through year 2020 (the last year in which the Agency may undertake activities implementing the Plan Amendment) consist of all costs associated with executing the proposed projects recommended to redevelop the Proposed Project Area. The costs include land acquisition costs, acquisition expenses, relocation, off-site improvements, soft costs associated with development and other development activities.

Implementation costs will be incurred related to residential development and the support of community and cultural services. The total estimated work program costs are $43,952,000 as shown in Table VII-1 above. The work program costs include a development program of residential new construction and rehabilitation projects, economic development, community service and cultural facilities, and sidewalk improvements. The projects are anticipated to be redeveloped during the remaining 15-year life of the Project, or through the year 2020.

Affordable housing development comprises 78% of work program costs related to redeveloping the Proposed Project Area, with economic development efforts encompassing 9% of the implementation costs. Community outreach and planning represent 8% of costs. Public infrastructure improvements and community service and cultural projects to promote the quality of life within the Proposed Project Area have been allocated 5% of total costs (See Chart VII-1).

Chart VII-1



Chapter VI, "Proposed Redevelopment Program," contains a more detailed description of the projects and programs necessary to implement the Plan Amendment.

2. Bond Debt Service And Administrative Costs

In addition to the direct program costs, the Agency will incur certain administrative and financing costs associated with program activities. Staffing and administrative costs are projected to be $6,924,000 over the remaining life of the Project. The financing costs from Fiscal Year 2005-06 through the term of the Plan are estimated to be $29,724,000. This amount represents interest and principal payments on tax allocation bonds totaling $22,678,000 secured solely by South of Market tax increment. It includes a small amount of debt service remaining from bonds issued prior to 2004 (see Table VII-5).

C. Anticipated Project Revenues

The estimated revenues for the proposed redevelopment program are presented in this and the following section and include various potential funding sources. The most significant revenue source for the redevelopment program is tax increment financing. This financing method is described in this section and incorporated into the analysis of funding feasibility shown in Tables VII-2 through VII-5.

1. Tax Increment Revenues

The implementation of the proposed redevelopment program and the resulting stimulation of private development activity through improved conditions in the Proposed Project Area will provide the main sources of revenue through payment of increased property taxes, resulting in tax increment revenue to the Agency. The tax increment projections are based on the increase in assessed valuation generated from new development activity stimulated by the proposed redevelopment program, combined with increases in valuation due to property turnover, less an estimated amount of assessed value deleted from the tax rolls as a result of new tax-exempt uses.

a. Allocation of Base Year Taxes and Tax Increment Funds

The amount of property taxes flowing to the City's General Fund and other taxing entities when the Redevelopment Plan was adopted in 1990 (the "Base Year") have and will continue to flow to them. However the increased property tax revenue resulting from increased assessed valuation since that time, that is, the tax increment, is divided among the City's General Fund, the other taxing entities and the Agency. Pursuant to the CRL and subject to the Board of Supervisors' approval of the Agency's annual budget, the Agency receives 20% of the total tax increment for affordable housing purposes and up to 60% of the total tax increment for any redevelopment purpose (which in the case of the South of Market redevelopment program includes substantial additional expenditures for affordable housing, as described below). The remaining 20% of total tax increment is distributed among the General Fund and the other taxing entities in the same proportions as taxes received from properties outside a redevelopment area.

In San Francisco, the taxing entities other than the City's General Fund that receive a portion of property taxes are the San Francisco Unified School District, the Community College District, Bay Area Rapid Transit and Bay Area Air Quality Management District. The amount of tax increment that the CRL requires to flow to the General Fund and the other taxing entities is referred to as the "pass through" amount. During the first ten years of a redevelopment project adopted after December 31, 1993, the pass through amount is 20% of total tax increment, which is referred to as the Tier I pass through amount. This provision of the CRL would apply to tax increment attributable to the Western Expansion Area of the Proposed Project

Area from the date on which the Project Area is amended to include the new territory. For the remainder or existing Project Area, the Tier I pass through amount began in Fiscal Year 1999-2000, as stipulated by the CRL for redevelopment plans adopted on or before December 31, 1993.

In the eleventh year after the commencement of Tier I pass through payments, the amount going to the other taxing entities (but not to the General Fund) is increased by 16.8% of the new tax increment received from the eleventh year forward; this increase is referred to as the Tier II pass though amount. In the thirty-first year after commencement of the Tier I pass through payments, the amount going to the other taxing entities (but not to the General Fund) is again increased by 11.2% of the new tax increment received from the thirtieth year forward until project completion; this increase is referred to as the Tier III pass through amount. However, no Tier III pass through payments are expected in the Proposed Project Area because the Redevelopment Plan would expire in 2030, requiring all debt to be repaid before the Tier III pass through payments would begin. Upon completion of the Redevelopment Project, including repayment of debt, all tax increment again flows to the General Fund and other taxing entities.

b. Assumptions Underlying Tax Increment Projections

Tables VII-2 and VII-3, " Tax Increment Projections and Debt Capacity Calculations," provide a projection of annual tax increment revenue to be generated through the remaining life of the Plan Amendment and the net amounts available to the Agency (for both affordable housing and other purposes) after the required pass through amounts. The projections are based upon the most recent fiscal year's tax increment generation increased annually by 3.0% after 2006 to account for both new private development and the inflation of assessed property values throughout the Project Area. In comparison, the Project Area experienced a weighted average increase of 5.00% annually for Assessed Property Values (AV) from 1990-2000.

Due to the recent real estate market and based upon data from the Bureau of Labor Statistics, the San Francisco/Oakland/San Jose Consumer Price Index (CPI) for 2002 was approximately 1.8%. Although the Project Area's values increased significantly during 1998-2000, this is attributed to the increase in private industry sectors such as the internet or "dot-com" businesses located within the area. This particular industry sustained a significant downturn during the last two years.

The impact of this downturn, and the larger economic slowdown, on commercial office space rental rates and market rate housing vacancies represents a substantial decline in the area. Due to these events, the growth projections for AV are based on a more conservative rate of 3% (and from negative 1% to positive 2.5% until 2006) as opposed to the 5% growth that has previously been experienced in the Project Area.

In addition, this conservative rate of 3% also allows for assumed or pending downward reassessments of properties in the Proposed Project Area. During downturns in the economy, many property owners throughout the City file assessment appeals resulting in at least temporary reductions in assessed property values. AV fluctuations such as these have a direct impact on tax increment generation.

The total estimated discretionary tax increment revenue available to the Agency from both the existing Project Area and the Western Expansion Area is $87,513,000.

2. Tax Allocation Bonds – Net Bond Proceeds

The Agency may utilize tax increment revenue on a pay-as-you-go basis or it may incur debt obligations as a result of issuing tax allocation bonds. If the Agency issues bonds, it must make annual debt service payments on any such outstanding bonded indebtedness. Redevelopment agencies issue tax allocation bonds to undertake projects when annual tax increment revenues are not sufficient to support project costs on a pay-as-you-go basis, particularly in the early years of a redevelopment plan. Tables VII-4 and VII-5 indicate that the South of Market redevelopment program can be financed through a combination of pay-as-you-go tax increment funding and tax allocation bonds secured by tax increment funding.

Bond proceeds in the amount of $22,678,000 from the sale of tax allocation bonds are needed to complete the South of Market redevelopment program. The bond proceeds presented in Table VII-5 assume an interest rate of 5.25%, representing a rate of current tax-exempt bonds and debt service payments through 2030.

Revenue sources flowing to the Agency are sufficient to support the required debt service payment for current projects, including some tax increment derived from the fiscal merger of the Project Area and Golden Gateway in 1994. The debt capacity of the Proposed Project Area is able to support the $43,952,000 in redevelopment projects proposed during the remaining life of the Proposed Project Area.

3. Interest Earnings

Minor amounts of interest earnings based on the investment of the balance of cash on hand from projected tax increment may contribute some ancillary funding in support of the redevelopment program.

4. Limits on Establishment of Tax Increment Indebtedness

The Plan Amendment extends the redevelopment program's implementation period by ten years from 2010 to 2020, which is also the maximum amount of time that the Agency may incur additional indebtedness secured by tax increment for the existing Project Area. The Agency would have an additional 10 years, ending in 2030, to repay any outstanding obligations in the existing Project Area. By extending the periods for incurring and repaying debt, the Plan Amendment significantly increases the resources available to the Agency to address the conditions of blight remaining in the Proposed Project Area.

For the Western Expansion Area, the Plan Amendment provides that the Agency could incur and repay indebtedness secured by tax increment in accordance with the limits established by the CRL for newly adopted areas. This means that the Agency could incur debt for 20 years following adoption of the Plan Amendment and would have to repay such debt by 45 years following adoption. However, the Agency does not anticipate using these longer timelines since the amount of tax increment projected from the Western Expansion Area is expected to be insufficient to warrant the expense of issuing bonds, except in combination with the much greater tax increment from the larger existing Project Area. Therefore, the Agency expects to incur all tax increment debt by 2020 and pay off the debt by 2030.

The proposed Plan Amendment will be subject to the provisions and limitations of the CRL. Redevelopment plans adopted before January 1, 1994 are required to establish a limit on the amount of tax increment that can be received from a project area. The Plan Amendment would increase this amount from $102,000,000 to $200,000,000 for the Proposed Project Area. In addition, since the Project Area previously has been merged for fiscal purposes with the Golden Gateway and Federal Office Building redevelopment project areas, the Plan Amendment would increase the aggregate limit for the merged project area from $422 million to $520 million.

The Agency is also required to establish a limit on the amount of bonded indebtedness that may be outstanding at any one time, which the Plan Amendment raises from $60,000,000 to $80,000,000. Both the tax increment limit and the bonded indebtedness limit are above the anticipated actual amounts in order to account for potential variations in the development and investment markets. The tax increment limit applies to all tax increment received from the existing Project Area since its adoption in 1990, as well as future increment received from the Proposed Project Area through the life of the Plan Amendment.

5. Limits On The Use Of Tax Increment Funds

In addition to the Plan Amendment limits described above, there are other requirements relating to the use and collection of tax increment to which the Agency must adhere to the extent that they are applicable.

a. Required and Projected Use of Funds for Affordable Housing

In accordance with the CRL, the proposed Plan Amendment requires that not less than 20% of all tax increment received be placed into a housing set-aside fund to be used by the Agency for the purposes of increasing, improving and preserving the community supply of housing available at affordable costs to persons and families of low- and moderate-income and very low-income households. This requirement could be waived if it is determined in a particular year that no need (or a lesser need) exists in the community to improve or increase the supply of low- and moderate-income housing, or that the community is making an equivalent effort in other ways to meet its existing and projected housing needs with respect to persons and families of low- and moderate-income.

However, as indicated in Tables VII-4 and VII-5, the Plan Amendment is expected to substantially exceed the CRL affordable housing requirement. This is because the Plan Amendment's primary strategy for revitalizing the Proposed Project Area is to provide the neighborhood with a stable core of affordable housing, well served by supporting retail activity, community services, jobs and public infrastructure. The housing funds may be used to provide housing for low- and moderate-income households within or outside the Proposed Project Area but may only be used outside of the Proposed Project Area if the Agency determines that such a use will benefit the Proposed Project Area.

b. Other Tax Increment Funding Requirements

Prior to the Agency approving the sale or lease of property acquired with tax increment, the Agency must provide a report to the Board of Supervisors which includes supportive evidence that such a sale or lease will assist in eliminating blighting conditions in the Proposed Project Area. In addition, the Agency may pay for the cost of public improvements or facilitate payment of land or construction costs of public facilities when such actions will assist in eliminating one or more blighting conditions identified in the Plan Amendment.

D. Other Potential Funding Sources

The analysis conducted to determine the economic feasibility of the Plan Amendment considered various other potential sources of revenue, including developer proceeds, interest income and assistance from local, state and federal governments, in addition to tax increment revenues. The proposed primary method of financing the Plan Amendment by tax increment may be supplemented by these other revenue sources, but the Agency cannot rely on them to support its programs due to the uncertainty of their availability and the likelihood that if available, the amount of funding would be small. However, the Agency intends to use tax increment funds to leverage additional funds from other sources wherever possible.

Some of the other revenues can be identified only by general categories at this time, since specific amounts will depend upon changing market conditions and the availability of public resources for urban programs at various levels of government over an extended period of time. The types of revenues considered in the economic feasibility analysis of the Plan Amendment include the following:

1. Developer & Private Sources

It is anticipated that developers may provide minimal financial assistance for the redevelopment program. Potential support may be represented through purchasing sites owned or identified by the Agency. In addition to fee sale or lease proceeds, transactions between the Agency and individual developers may include the Agency's participation in a

percentage of the developer's cash flow, a percentage of the proceeds of the refinancing of developments, or a percentage of the proceeds of the sale of projects.

Property owners, business owners and developers may also participate directly in the revitalization of the area through capital and improvement investments. The Agency will encourage such investments through its overall efforts to eliminate blight and improve conditions in the Proposed Project Area and through specific programs such as owner participation and loan and grant programs designed to leverage additional private investment through matching funds and other means.

2. Government Sources

Local, state and federal funds are all increasingly limited and subject to competing demands and priorities.

a. City of San Francisco General Fund

The San Francisco General Fund relies largely on property taxes, which are dependent on the health of the local economy. The San Francisco economy has weakened over the past few years since 2001, and the General Fund is increasingly oversubscribed to support ongoing city services. The general fiscal condition of the City makes any ongoing direct financial support of redevelopment activities unlikely. State and federal governments have recently shifted a growing share of costs and new programs to local jurisdictions. At the same time, cities and counties have a limited ability to raise revenues that might offset new costs or replace lost revenue. In addition to funding essential functions such as police and fire services, the City anticipates major capital expenditures to address the demands on, and needs of, city facilities. San Francisco closed a substantial deficit in its FY 2003/04 annual budget and more recently was forced to close a similar budget deficit of approximately $300 million dollars in its FY 2004/05 annual budget. The City has cut staffing, service provision and put many promised projects and programs on indefinite hold. As a result, the City General Fund cannot be relied on as a major source of redevelopment funding.

b. Community Development Block Grants (CDBG)

The primary federal source of funding for urban programs has been the Department of Housing and Urban Development's Community Development Block Grant (CDBG) program. The Agency will continue to apply for this and other state and federal funds that may become available to assist in implementing specific projects. CDBG-funded projects and activities must principally benefit low-and moderate-income persons, address an urgent need or alleviate urban blight. In the past, the Agency has used some CDBG funding for redevelopment activities, but the funds have become increasingly limited. In recent years, most of the CDBG funds have been used to construct and rehabilitate housing, and provide needed services and facilities, such as day care, to lower-income residents. Although these uses have supplemented and may continue to supplement Agency programs within the Proposed

Project Area, citywide demands for such services make CDBG funding uncertain and inadequate to address the severity of area conditions.

c. Economic Development Administration
The Economic Development Administration (EDA) of the federal government has been a source of grants for economic development and financing infrastructure improvements. However, these very limited funds are competitively allocated, and funding is not guaranteed over the long term. The Agency does not anticipate receiving significant assistance from EDA to fund South of Market redevelopment projects and activities.

d. State of California Economic Development Programs
The primary economic development program of the State of California is redevelopment authorized by the CRL. While the state provides technical assistance funds, such as in the Main Street Program administered by the State Office of Historic Preservation, it does not have any source of significant capital funding for revitalization activities. The Main Street Program has provided assistance to the Agency in developing the revitalization program for Sixth Street, and the Agency will continue to involve the program to the degree feasible, but only incidental financial assistance is expected through the program.

e. Gas Tax
The State of California imposes a tax on gasoline sales. An interstate user tax and use fuel tax is also collected by the state. Approximately one-third of the gasoline, diesel fuel and use fuel tax revenues are distributed to local jurisdictions through a formula based on population and other factors. These revenues may be used for street maintenance and construction activities. The City's revenue estimates for FY 2003/04 included approximately $17.3 million in gas tax revenues, which are distributed between the Department of Public Works and the Municipal Transportation Agency. Gas tax funds are a potential source of funding for circulation improvements in the Proposed Project Area.

3. Assessment Districts & Business Improvement Districts

Assessment districts enable a city to levy additional taxes on property within designated areas in order to finance certain public improvements directly benefiting those areas. Bonds are issued to finance local improvements such as streets, sidewalks, and parking facilities. Upon the issuance of bonds, the district has the power to assess all property owners included in the district in order to repay the borrowed funds. Assessment districts are not limited by Proposition 13 and Proposition 4 (ballot initiatives limiting increases in property tax assessments and prohibiting the imposition of new taxes not approved by a two-thirds majority of voters within the area to be taxed), and have the advantage of placing the costs of public facilities directly on the benefited property owners. A district could conceivably be established to address area infrastructure or public facility needs.

A similar funding mechanism is the Community Benefit District or CFD, which has been used in Union Square, the Tenderloin, the Castro, Noe Valley, Fisherman's Wharf and elsewhere in other cities to address street cleaning and policing needs. San Francisco voters recently approved five such districts and the Agency has engaged a consultant to advise on the feasibility of one or more in the Western Addition Redevelopment Project Area A-2. Conceivably such an effort could be undertaken on Sixth Street. However, since both assessment districts and CFDs entail an additional economic burden on property owners, they often generate resistance, especially in areas like the South of Market where blighting conditions already burden the potential economic return on property investments. And unlike Union Square, no large owners or corporations along the Sixth Street corridor have the means to shoulder a significant amount of the burden.

4. Historic Tax Credits

Under the Mills Act, the owner of an eligible historic property may enter into a ten-year contract with a participating city to rehabilitate the building in exchange for a reduction in local property taxes. Owner-occupied single family residences or income-producing commercial properties may qualify for the Mills Act program. Eligible properties must be listed on the National Register of Historic Places, be located in a National Register or local historic district, or be listed on a state, county or city official register. The Proposed Project Area contains a portion of a City designated historic district and several City designated landmark buildings. Adopted by the City of San Francisco in 1996, the Mills Act could provide tax incentives to historic preservation projects for these properties within the Project Area, provided that the buildings' owners are able and willing to participate. Federal historic tax credits may also be available for certain projects.

5. Affordable Housing Tax Credits and Other Programs

Federal and state tax credits are also available to help finance affordable housing developments and are expected to continue to play an important role in such developments within the Proposed Project Area. The state's tax-exempt bond financing program for affordable housing, administered by the California Debt Limit Allocation Committee (CDLAC), may also be available for selected housing developments, although the tax credit program is highly competitive. Funding secured in cooperation with the Mayor's Office of Housing is also anticipated to continue to play a role in implementing the Proposed Project Area's core redevelopment strategy of stabilizing neighborhood conditions by providing a solid base of affordable housing and supportive services. The Agency's affordable housing program will continue to seek and leverage all such assistance. However, the Agency's success in securing affordable housing funds from other sources has been and is expected to continue to be dependent on the Agency's ability to provide critical matching and bridge financing through the availability of tax increment funds.

E. Economic Feasibility of the Project

Tables VII-4 and VII-5 provide estimates for funding the implementation of the redevelopment program through the anticipated repayment of all debt in Fiscal Year 2029-30. The cash flow projections presented in these tables indicate that the Project is feasible based on the revenue and cost categories previously discussed.

The Proposed Project Area (including the previous fiscal merger with Golden Gateway) provides sufficient tax increment revenue to support bond indebtedness through Fiscal Year 2029-30 2030, which is when the Agency expects all debt service to be retired. During the implementation phase of the redevelopment program through 2020, the Agency will actively stimulate development through completion of the housing, economic development and public infrastructure improvement projects. As shown in Tables VII-4 and VII-5, the Plan Amendment will be able to support the estimated costs of this program and remain economically feasible over the life of the Plan Amendment.

The projected program costs indicate the need for a total of approximately $44 million to accomplish the implementation of the Plan Amendment, net of administrative and financing costs. Neither the City and other public entities, nor the private sector acting alone, will be able to meet the needs in the Project Area without the use of tax increment financing provided through the Agency.

The absence of any significant and consistent alternative source of revenues for urban programs has left redevelopment in California almost completely dependent on tax increment financing through redevelopment agencies. San Francisco is no exception. If adequate local revenue sources are to be made available, it is clear they will have to come primarily from the taxes generated by redevelopment activities. By aggressively addressing physical and economic problems in the Proposed Project Area, the Agency can stimulate private investment where only minimal amounts are now taking place. If the Agency can eliminate the conditions that are deterrents to investment, it is appropriate that a portion of the property tax increment generated be made available to pay the costs of the redevelopment program.

F. Necessity for Redevelopment

Adverse physical and economic conditions in the Proposed Project Area, as documented in Chapters IV and V and the photographs contained in Appendix C, are present to such an extent that private enterprise and governmental action, working alone or together, cannot reasonably be expected to reverse such blighting conditions without redevelopment assistance.

1. Substantial Extent of Physical and Economic Blighting Conditions

A substantial number of unsafe and/or unhealthy buildings are located within the Proposed Project Area. In addition, several factors inhibit the proper use of buildings and lots, such as

the presence of deteriorated buildings, earthquake hazards and poor soil conditions, underutilized properties, and deteriorated and substandard public improvements.

Several economic conditions cause a reduction in or lack of proper use of the Proposed Project Area, including impaired investments such as the poor economic performance of retail businesses. Other factors include economic indicators of distressed buildings or lots, including low commercial lease rates, high commercial vacancy rates, and underutilized property. The Proposed Project Area is also negatively impacted by a lack of neighborhood-serving commercial facilities and a high crime rate.

As further described below, these blighting conditions have caused a reduction in, or lack of, proper utilization of the Proposed Project Area and constitute a serious physical and economic burden on the community, which cannot be reversed or alleviated without the assistance of Agency through the authority of the CRL.

2. Significant Burden on the Community

Chapters IV and V document existing blighting conditions in the Proposed Project Area community and that Proposed Project Area properties are not being used to the same potential as properties in other parts of the community. The blighting conditions in the Proposed Project Area constitute a serious physical and economic burden on the community in at least the following respects:

- Prevent proper usefulness and economic development of land.
- Prevent adequate supply of affordable and other housing.
- Deprive property and business owners of a competitive return on their investments.
- Hinder the enhancement of the physical environment.
- Deprive residents of San Francisco and surrounding areas of employment opportunities.
- Deprive the City, the County, the education districts, and other affected taxing entities of significant tax revenue potential.
- Hinder the development of a stronger economic base for the community.

3. Inability of Private Enterprise or Government Acting Alone to Alleviate Blight

The redevelopment program to alleviate blighting conditions in the Proposed Project Area is necessary because neither the private sector nor government acting alone has been able to eliminate such conditions. Without redevelopment assistance, many of the program costs would have to be borne solely by the private sector. Section D of this chapter presents a discussion of possible sources of private sector funds for redevelopment. By themselves, these sources would not be able to provide the resources necessary to eliminate blighting conditions and revitalize the area.

The private sector's ability to alleviate blight is limited by the following factors:

- The preponderance of older, deficient and deteriorated buildings, taken together and individually, making it difficult for private property owners to upkeep and improve their properties.
- The high crime rate is a deterrent to businesses located and locating in the area.
- Costly infrastructure improvements are needed in the Project Area.

As discussed in Section D of this chapter, alleviating blighting conditions in the Proposed Project Area is not feasible by governmental action alone because of the lack of a reliable flow of federal, state, or local financial resources available to fund a comprehensive revitalization program. Federal funding sources have become more and more limited. Both the City and the State are facing large deficits for FY 2004/05. Due to the General Fund gap, the City has unmet capital needs even for routine maintenance costs.

In the last few years, the Department of Public Works (DPW) has significant unmet funding needs for several of its programs, which, if funding were available, could provide assistance to the redevelopment program. However, extensive backlogs exist in the programs. Three examples of DPW programs with substantial backlogs are as follows:

- **Street Resurfacing Program**

In FY 2003/04, the street resurfacing program's funding backlog was $318.2 million and the program's FY 2003/04 annual maintenance cost was $38.6 million. No General Fund monies were available for the program. Local sales taxes provided $11 million in revenue, leaving a capital program deficit of $345.8 million.

- **Sidewalk Repair Program**

In FY 2003/04, the sidewalk repair program's funding backlog was $5.9 million and the program's annual maintenance cost was $850,000. Local sales tax revenue in the amount of $500,000 was budgeted for FY 2003/04, while no General Funds monies were available, thus leaving a program capital deficit of $6.3 million.

- **Curb Ramp Construction**

In FY 2003/04, the curb ramp construction program's funding backlog was $175 million. The General Fund allocation was $0.3 million with an additional $0.3 million is available through TDA funds. Thus, the program's capital deficit was $174.4 million.

Use of tax increment revenue financing is essential to fund an effective revitalization effort for the Proposed Project Area. Other governmental revenues, particularly General Fund revenues, are not sufficient to pay for the program or to alleviate blight in the Proposed Project Area. In this financial setting, redevelopment assistance in the form of tax increment revenue is essential to fill the funding gap to undertake an effective revitalization effort for the Proposed Project Area.

4. Reasons Why Tax Increment Financing Is Necessary

As discussed earlier, the costs to alleviate documented blighting conditions substantially exceed available funding from public and private sources. The City's current Fiscal Year 2005-06 budget cuts add additional uncertainty with regard to future City revenues and expenses. This uncertainty is exacerbated by tax revenue uncertainties that are dependent on the timing and pace of an unknown economic recovery. Coupled with the state budget crisis and federal budget deficit, tax increment financing is the only reliable long-term financing source available to fill the substantial gap between the costs of the redevelopment program and other public and private revenue sources.

Neither the private sector alone, the public sector alone, nor the private and public sectors working together (without redevelopment assistance) can financially support the substantial costs of the proposed redevelopment program. Because these projects and activities are critical to the revitalization of the Proposed Project Area, tax increment financing is needed to assist in funding these projects. Tax increment financing will be the critical funding source that the Agency will use to implement the South of Market redevelopment program.

San Francisco Redevelopment Agency
South of Market Redevelopment Plan Amendment

Identification of Each Taxing Agencies Levying Taxes in the Project's Western Expansion Area

	2005-2006 Tax Rates for	
	Secured Roll	Unsecured Roll
City and County of San Francisco	0.64685541(1)	0.64685541(1)
San Francisco Community College District Fund	0.01444422	0.01444422
San Francisco Unified School District General Fund	0.07698857	0.07698857
Bay Area Air Quality Management District	0.00208539	0.00208539
Bay Area Rapid Transit District General Fund	0.00632528	0.00632528
Educational Revenue Augmentation Fund	0.25330113	0.25330113
Total General	1.00000000	1.00000000
Rates for Debt Service		
City and County of San Francisco	0.12012547	0.12838968
San Francisco Unified School District	0.01092226	0.00393518
San Francisco Community College District	0.00415227	0.01167514
Bay Area Rapid Transit District	0.00480000	0.00000000
Total Debt Service	0.14000000	0.14400000
Tax Rate	1.14000000(2)	1.14400000

(1) Tax rate includes Special Revenue Funds of the City and County of San Francisco.
(2) Estimate pending approval of the Board of Supervisors of the City and County of San Francisco.

TY & COUNTY OF SAN FRANCISCO
05-06 SECURED PROPERTY TAX RATE
3 - 8 APPORTIONMENT FACTORS & DEBT SERVICES - TAX RATE $1.00

	TAX RATE		REVENUE %
GENERAL FUND	0.56588206		56.58820600%
COUNTY SUPERINTENDENT OF SCHOOLS	0.00097335		0.09733500%
SUB - TOTAL GENERAL FUND	0.56685541		56.68554100%
CHILDRENS' FUND	0.03000000		3.00000000%
LIBRARY PRESERVATION FUND	0.02500000		2.50000000%
OPEN SPACE ACQUISITION FUND	0.02500000		2.50000000%
GENERAL CITY BOND DEBT FUND	0.00000000		0.00000000%
CCSF TOTAL	**0.64685541**		**64.68554100%**
S.F. COMMUNITY COLLEGE DIST. GENERAL FD	0.01444422		1.44442200%
S.F. COMMUNITY COLLEGE DIST. BOND FD	0.00000000		0.00000000%
SUB - TOTAL	0.01444422		1.44442200%
S.F. UNIFIED SCHOOL DIST. GENERAL FUND	0.07698857		7.69885700%
S.F. UNIFIED SCHOOL DIST. BOND FUND	0.00000000		0.00000000%
S.F. UNIFIED SCHOOL STATE LOAN FUND	0.00000000		0.00000000%
SUB - TOTAL	0.07698857		7.69885700%
EDUCATIONAL REVENUE AUGMENTATION FUND	0.25330113	*	25.33011300%
SCHOOLS TOTAL	**0.34473392**		**34.47339200%**
BAY AREA AIR QUALITY MANAGEMENT DIST.	0.00208539		0.20853900%
BAY AREA RAPID TRANSIT DIST. GENERAL FD.	0.00632528		0.63252800%
BAY AREA RAPID TRANSIT DIST. BOND FUND	0.00000000		0.00000000%
SUB - TOTAL	0.00632528		0.63252800%
	$1.00000000		100.00000000%
LESS: S. F. REDEVELOPMENT AGENCY		**	0%
TOTAL APPORTIONED			**100.0000000%**

tes:

ERAF allocation ratio: **SFUSD** .842263 **SFCCD** .157737
SFUSD is further allocated as follows: **School** .99848 **County Supt.** .00152

SFRA is apportioned by Tax Rate Area including pre-1989 debt overrides, subject to property tax increment less mandatory pass-throughs.

SOM Western Expansion Area
Tax Increment Projections and Debt Capacity Calculations
(000's omitted)

Fiscal Year	Unsecured Assessed Value	Secured Assessed Value	Total Assessed Value	Gross Tax Increment	AB1290 Pass-Throughs Tier I	Tier II	Tier III	Net SFRA Tax Increment	Debt (1) Capacity
2005-06	$ 238	$ 9,122	$ 9,360	$	$	$	$	$	$
2006-07	238	9,396	9,634	3	1			2	21
2007-08	238	9,678	9,916	6	1			4	42
2008-09	238	9,968	10,206	9	2			7	63
2009-10	238	10,267	10,505	12	2			9	83
2010-11	238	10,575	10,813	15	3			12	102
2011-12	238	10,893	11,130	18	4			14	119
2012-13	238	11,219	11,457	21	4			17	137
2013-14	238	11,556	11,794	24	5			19	153
2014-15	238	11,903	12,140	28	6			22	169
2015-16	238	12,260	12,498	31	6			25	182
2016-17	238	12,628	12,865	35	7	1		27	190
2017-18	238	13,006	13,244	39	8	1		30	196
2018-19	238	13,397	13,634	43	9	2		32	201
2019-20	238	13,798	14,036	47	9	3		35	203
2020-21	238	14,212	14,450	51	10	3		37	
2021-22	238	14,639	14,877	55	11	4		40	
2022-23	238	15,078	15,316	60	12	5		43	
2023-24	238	15,530	15,768	64	13	5		46	
2024-25	238	15,996	16,234	69	14	6		49	
2025-26	238	16,476	16,714	74	15	7		52	
2026-27	238	16,970	17,208	78	16	8		55	
2027-28	238	17,479	17,717	84	17	9		58	
2028-29	238	18,004	18,242	89	18	10		61	
2029-30	238	18,544	18,782	94	19	11		65	
Total				$ 1,046	$ 209	$ 74		$ 763	

Note: (1) Net proceeds available for work program activities.

(2) Fiscal year 2019/20 is the last fiscal year the Agency expects indebtedness to be incurred.

(3) Fiscal year 2029/30 is the last fiscal year that the Agency expects to receive tax increment to pay indebtedness.

(4) Fiscal year 2005/06 is assumed to be the base year for calculating tax increment.

9/2/2005

South of Market Tax Increment Projections and Debt Capacity Calculations
(000's omitted)

Fiscal	Assessed	Gross Tax	AB1290 Pass-Throughs			Net SFRA	Debt
Year	Value	Increment	Tier I	Tier II	Tier III	Tax Increment	Capacity
2005-06	379,735	2,740	423			2,317	15,600
2006-07	391,127	2,854	446			2,408	16,453
2007-08	402,861	2,972	470			2,502	17,301
2008-09	414,947	3,094	494			2,600	18,131
2009-10	427,395	3,220	519			2,701	18,936
2010-11	440,217	3,349	545	22		2,782	19,523
2011-12	453,423	3,448	566	45		2,838	19,851
2012-13	467,026	3,584	593	69		2,923	20,373
2013-14	481,037	3,725	621	93		3,010	20,856
2014-15	495,468	3,869	650	116		3,103	21,314
2015-16	510,332	4,017	680	141		3,197	21,703
2016-17	525,642	4,171	711	167		3,293	22,034
2017-18	541,411	4,328	742	193		3,393	22,295
2018-19	557,654	4,491	775	221		3,495	22,478
2019-20	574,383	4,658	808	249		3,600	22,573
2020-21	591,615	4,830	843	279		3,709	
2021-22	609,363	5,008	878	306		3,824	
2022-23	627,644	5,191	915	336		3,940	
2023-24	646,473	5,379	952	368		4,059	
2024-25	665,868	5,573	991	401		4,181	
2025-26	685,844	5,773	1,031	434		4,307	
2026-27	706,419	5,978	1,072	469		4,437	
2027-28	727,612	6,190	1,115	504		4,571	
2028-29	749,440	6,409	1,158	541		4,709	
2029-30	771,923	6,633	1,203	579		4,851	
Total		$ 111,484	$ 19,202	$ 5,532	$ -	$ 86,750	
Notes:							
(1) Fiscal year 2019/2020 is the last fiscal year debt can be incurred.							
(2) Fiscal year 2029/30 is the last fiscal year that tax increment can be received.							

City and County of San Francisco

Meeting Agenda

Budget and Finance Committee

Members: Tom Ammiano, Ross Mirkarimi, Sean Elsbernd

Clerk: Gail Johnson

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Thursday, November 17, 2005 | **1:00 PM** | **City Hall, Room 263**

Regular Meeting

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1) Legislation
2) Budget Analyst report
3) Legislative Analyst report
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Each member of the public will be allotted the same maximum number of minutes to speak as set by the Chair at the beginning of each item, excluding City representatives, except that public speakers using translation assistance will be allowed to testify for twice the amount of the public testimony time limit. If simultaneous translation services are used, speakers will be governed by the public testimony time limit applied to speakers not requesting translation assistance.

AGENDA CHANGES

REGULAR AGENDA

1. 051695 **[Accept-Expend Federal Grant - Mayor's Office of Criminal Justice (MOCJ) - $100,000]**
Supervisor Maxwell
Resolution authorizing the Mayor's Office of Criminal Justice (MOCJ) to retroactively accept and expend a grant in the amount of $100,000 from the Office of Justice Programs (OJP), Department of Justice for the purpose of supporting activities to reduce the number of violent and drug-related crimes in the designated Weed and Seed area within the Bayview Hunters Point neighborhood.

10/11/05, REFERRED FOR ADOPTION WITHOUT COMMITTEE REFERENCE AGENDA AT THE NEXT BOARD MEETING.
10/18/05, REFERRED to Budget and Finance Committee. Supervisor Elsbernd requested that this matter be referred to Committee.

2. 051696 **[Accept-Expend Federal Grant - Mayor's Office of Criminal Justice (MOCJ) - $653,368]**

Supervisor Maxwell

Resolution authorizing the Mayor's Office of Criminal Justice (MOCJ) to retroactively accept and expend a grant in the amount of $653,368 from the Bureau of Justice Assistance (BJA), Office of Justice Programs (OJP), Department of Justice for the purpose of supporting activities to reduce the drug problem and violent activity associated with drug activity in San Francisco.

10/11/05, REFERRED FOR ADOPTION WITHOUT COMMITTEE REFERENCE AGENDA AT THE NEXT BOARD MEETING.

10/18/05, REFERRED to Budget and Finance Committee. Supervisor Elsbernd requested that this matter be referred to Committee.

3. 051677 **[Grant of Federal Funds - Municipal Transportation Agency]**

Supervisor Dufty

Resolution authorizing the Municipal Transportation Agency to Accept and Expend $65,840,680 of Federal Formula Section 5307 Surface Transportation Program and Congestion Mitigation for Air Quality Capital Assistance for various San Francisco capital projects and activities, excluding Administrative Overhead Costs.

(Fiscal impact.)

10/11/05, RECEIVED AND ASSIGNED to City Operations and Neighborhood Services Committee.

11/7/05, TRANSFERRED to Budget and Finance Committee.

4. 051678 **[Grant of Regional Funds - Municipal Transportation Agency]**

Supervisor Dufty

Resolution authorizing the Municipal Transportation Agency to accept and expend $2,945,658 of Assembly Bill 664 Funds for San Francisco Municipal Railway Capital Projects, excluding administrative overhead costs.

(Fiscal impact.)

10/11/05, RECEIVED AND ASSIGNED to Land Use Committee.

11/7/05, TRANSFERRED to Budget and Finance Committee.

5. 051679 **[Grant of Federal Funds - Municipal Transportation Agency]**

Supervisor Dufty

Resolution authorizing the Municipal Transportation Agency to accept and expend $23,305,667 Federal Formula Section 5309 Fixed Guideway capital projects and activities, excluding administrative overhead costs.

(Fiscal impact.)

10/11/05, RECEIVED AND ASSIGNED to Land Use Committee.

11/7/05, TRANSFERRED to Budget and Finance Committee.

6. 051810 **[Lease of Real Property at 1390 Market Street]**

Resolution authorizing the renewal and expansion of a lease at 1390 Market Street for the Department of Children, Youth and their Families. (Real Estate Department)

10/24/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

7. 051644 **[Information Technology Procurement and Maintenance]**

Supervisor Ammiano

Requesting a hearing on Information Technology procurement and maintenance to include the Department of Telecommunication and Information Systems, the Committee on Information Technology, and the mini-IT departments that the larger departments in this City have created, including the S.F. International Airport, the Department of Public Health, the S.F. Public Utilities Commission, and the Human Services Agency.

9/27/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

8. 051823 **[Multifamily Housing Revenue Bonds – Alabama Street Family/Senior Housing]**

Supervisor Daly

Resolution declaring the intent of the City and County of San Francisco (the "City") to reimburse certain expenditures from proceeds of future bonded indebtedness; authorizing the Director of the Mayor's Office of Housing (the "Director") to submit an application and related documents to the California Debt Limit Allocations Committee ("CDLAC") to permit the issuance of qualified mortgage revenue bonds in an aggregate principal amount not to exceed $33,000,000 for Alabama Street Family/Senior Housing; authorizing and directing the Director to direct the Controller's Office to hold in trust an amount not to exceed $100,000 in accordance with CDLAC procedures; authorizing the Director to certify to CDLAC that the City has on deposit the required amount; authorizing the Director to pay an amount equal to such deposit to the State of California if the City fails to issue the qualified mortgage revenue bonds; approving, for purposes of the Internal Revenue Code of 1986, as amended, the issuance and sale of mortgage revenue bonds by the City in an aggregate principal amount not to exceed $33,000,000; authorizing and directing the execution of any documents necessary to implement this Resolution; and ratifying and approving any action heretofore taken in connection with the Project (as defined herein) and the Application (as defined herein).

11/1/05, RECEIVED AND ASSIGNED to Budget and Finance Committee. Sponsor requests this item be heard at the November 17, 2005 meeting.

9. 051510 **[First Source Hiring Ordinance - Expanding the Chapter to apply to contract modifications; defining OLSE; amending liquidated damages and penalty sections and to provide for administrative review]**

Supervisor Mirkarimi

Ordinance amending the San Francisco Administrative Code by amending sections 83.2, 83.4, 83.6, 83.7, 83.9, 83.10, 83.11, 83.12, and 83.18 of the First Source Hiring Program to: 1) correct erroneous grammar and subsection references; 2) change "Department of Human Services (DHS)" to "Human Services Agency (HSA);" 3) define OLSE; 4) include the OLSE in making the final administrative determination regarding compliance with this Chapter; 5) include contract modifications under the definition of contracts; 6) amend provision of liquidated damages against contractors who fail to comply with this Chapter and to provide for administrative review; and 7) amend provision of a penalty against permittees and contractors engaged in non-City work performed in San Francisco who fail to comply with this Chapter and to provide for administrative review.

(Fiscal impact.)

9/6/05, ASSIGNED UNDER 30 DAY RULE to Rules Committee, expires on 10/6/2005.
9/19/05, TRANSFERRED to Budget and Finance Committee.
9/19/05, ASSIGNED UNDER 30 DAY RULE.

ADJOURNMENT

IMPORTANT INFORMATION

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051759 **[Rewards to Informants (Real Estate Watchdogs) for Information Related to the Detection of Underpayment of Property Tax]**

Ordinance amending Chapter 10 of the San Francisco Administrative Code by adding Sections 10.177-2 and 10.177-3, authorizing the Assessor to recommend rewards for information related to the detection of underpayment of tax owed to the City and County of San Francisco. (Assessor-Recorder)

10/17/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 11/24/2005.

051773 **[Public Financing for Mayoral Candidates]**

Supervisor Mirkarimi

Ordinance amending the Campaign and Governmental Conduct Code by amending sections 1.104, 1.108, 1.130, 1.134, 1.136, 1.138, 1.140, 1.142, 1.144, 1.148, 1.150, 1.152, 1.154, 1.156 and 1.170 and adding sections 1.134.5, 1.138.5, 1.140.5, 1.144.5 and 1.146 to create a public financing program for mayoral candidates, appropriate funding for the program and make other changes to the Campaign Finance Reform Ordinance.

(Fiscal impact.)

10/25/05, ASSIGNED UNDER 30 DAY RULE to Rules Committee, expires on 11/24/2005.

10/27/05, REFERRED TO DEPARTMENT. Referred to Ethics Commission for review and recommendation.

11/7/05, TRANSFERRED to Budget and Finance Committee.

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Know Your Rights Under the Sunshine Ordinance

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City and County exist to conduct the people's business. The Sunshine Ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. For information on your rights under the Sunshine Ordinance (Chapter 67 of the San Francisco Administrative Code) or to report a violation of the ordinance, contact Frank Darby by mail to Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco CA 94102 by phone at (415) 554-7724, by fax at (415) 554-7854 or by email at sotf@sfgov.org
Citizens may obtain a free copy of the Sunshine Ordinance by contacting Mr. Darby or by printing Chapter 67 of the San Francisco Administrative Code on the Internet, at http://www.sfgov.org/sunshine

Lobbyist Registration and Reporting Requirements

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [SF Campaign & Governmental Conduct Code Sec. 2.100] to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the San Francisco Ethics Commission at 30 Van Ness Avenue, Suite 3900, San Francisco, CA 94102; telephone (415) 581-2300; fax (415) 581-2317; web site www.sfgov.org/ethics

BUDGET AND FINANCE COMMITTEE
S.F. BOARD OF SUPERVISORS
CITY HALL, ROOM 244
1 DR. CARLTON GOODLETT PLACE
SAN FRANCISCO, CA 94102-4689

IMPORTANT HEARING NOTICE!!!

City and County of San Francisco
Meeting Agenda
Budget and Finance Committee

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Members: Tom Ammiano, Ross Mirkarimi, Sean Elsbernd

Clerk: Gail Johnson

Thursday, December 01, 2005 **1:00 PM** **City Hall, Room 263**

Regular Meeting

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08

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/05

AGENDA CHANGES

REGULAR AGENDA

THE CHAIR INTENDS TO ENTERTAIN A MOTION TO CONTINUE CONSIDERATION OF THE FOLLOWING ITEM, FILE 051684, TO THE CALL OF THE CHAIR:

1. **051684** **[To re-appropriate funds from the Mayor's Office to the Treasure Island Development Authority salaries account to fund severance pay and benefits to the Director of Treasure Island]**

Supervisors Sandoval, Daly

Ordinance re-appropriating $254,500 of salary funds from the Mayor's Office to the Treasure Island Development Authority salaries account to fund severance pay and benefits to the Director of Treasure Island for Fiscal Year 2005 - 2006.

(Fiscal impact.)

10/11/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

11/3/05, CONTINUED. Heard in Committee. Speakers: Harvey Rose, Budget Analyst; Supervisor Sandoval; Noelle Simmons, Mayor's Budget Office; Monique Zmuda, Deputy Controller; Joanne Sakai, Interim Executive Director, Treasure Island Development Authority; Tony Hall.
Continued to December 1, 2005.

2. 051737 **[Budget Analyst Report on the Public Education Enrichment]**
Supervisor Ammiano
Hearing to discuss the Budget Analyst Report on the Public Education Enrichment Fund dated September 30, 2005.

10/18/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.
11/3/05, CONTINUED. Speakers: None.
Continued to December 1, 2005.

3. 051767 **[Red Light Photo Enforcement Contract]**
Supervisor Ma
Resolution approving the contract between the Department of Parking and Traffic and ACS State and Local Solutions for administrative support services for the Red Light Photo Enforcement Program for a term not to exceed five years and an amount not to exceed $10,195,471.00.

(Fiscal impact.)

10/25/05, RECEIVED AND ASSIGNED to Budget and Finance Committee. Sponsor requests this item be heard at the next available Budget and Finance Committee meeting, per verbal request of Jaynry Mak, Legislative Aide.

4. 051644 **[Information Technology Procurement and Maintenance]**
Supervisor Ammiano
Requesting a hearing on Information Technology procurement and maintenance to include the Department of Telecommunication and Information Systems, the Committee on Information Technology, and the mini-IT departments that the larger departments in this City have created, including the S.F. International Airport, the Department of Public Health, the S.F. Public Utilities Commission, and the Human Services Agency.

9/27/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.
11/17/05, CONTINUED. Heard in Committee. Speakers: David Countrem, Information Technology Director, Department of Public Health; John Payne, Information Technology, Airport; Hans Loffeld, Information Technology Director, Public Utilities Commission; Rob Lux, Chief Technology Officer, Department of Telecommunications and Information Services; Deborah Vincent-James; Richard Eisman (DTIS employee); Gus Gallejo (DTIS employee); Male Speaker; Criss Romero, IFPTE, Local 21; Monique Zmuda, Deputy Controller.
Continued to December 1, 2005.

5. 051759 **[Rewards to Informants (Real Estate Watchdogs) for Information Related to the Detection of Underpayment of Property Tax]**
Ordinance amending Chapter 10 of the San Francisco Administrative Code by adding Sections 10.177-2 and 10.177-3, authorizing the Assessor to recommend rewards for information related to the detection of underpayment of tax owed to the City and County of San Francisco. (Assessor-Recorder)

10/17/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 11/24/2005.

6. 051869 **[Approval of Port Lease with Miller Kelly Architects, Inc. at the Roundhouse One Building located at 150 Sansome Street]**
Resolution approving Lease between the San Francisco Port Commission and Miller Kelly Architects, Inc., a California corporation, dba MK Think for the lease of the Roundhouse One Building located at 150 Sansome Street, for a term of ten (10) years and one hundred eighty (180) days with one (1) option to renew for an additional five (5) years. (Port)

11/10/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

7. 051827 [Exempting pusheart peddlers with BART permits at 16th and 24th Street Stations from Poliee permit requirements]

Supervisor Ammiano

Ordinance amending Article 17.3 of the Police Code by amending Section 1330 to define BART; adding Section 1330.2 to exempt pushcarts who obtain permits from BART for the 16th St. and 24th St. BART stations or adjacent plaza from obtaining a police permit; amending Section 1330.5 to require the Health Department Director to make a recommendation to BART within 30 days after the filing of such application with BART; amending Section 1330.14 to require the Health Department Director to forward the Certificate of Sanitation decal number assigned to each pushcart under the jurisdiction of BART to BART; and by renumbering Sections 1330.2 through 1330.6.

11/1/05, ASSIGNED UNDER 30 DAY RULE to City Operations and Neighborhood Services Committee, expires on 12/1/2005. 11/09/05 - Referred to the Small Business Commission for comment.

11/10/05, TRANSFERRED to Budget and Finance Committee.

8. 050916 [Policy and Program Recommendations for Community Choice Aggregation Implementation Plan]

Supervisors Ammiano, Mirkarimi

Resolution submitting Policy and Program Recommendations for a Community Choice Aggregation (CCA) Implementation Plan and approving a CCA Implementation Plan (IP).

(Fiscal impact.)

5/24/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

9/15/05, AMENDED. Heard in Committee. Speakers: Bruce Wolfe, Community Choice Energy Alliance; Bruce Osterweil, Sierra Club; Nancy; Elise Hilg; Don Eichelberger; Ron Dicks, Interim Chair; CCA Task Force; Jane Morrison, Democratic Central Committee and San Francisco Tomorrow; David Shonbrun, Bay Area Clean Air Task Force; Maurice Campbell, Community First Coalition; Ivel Miash; Linda Kramer; Cathleen Sullivan, San Francisco Bay Chapter of the Sierra Club; Dwight Cocke, TURN; Stekie Evans; Dr. Ahimsa Porter Simchai; Steven Notesell; Tess Wilbom, Haight-Ashbury Neighborhood Council; Eric Brooks, Coordinator, Our City; Barry Hermanson; Irene Dick Endrisi; Mary Go; Samantha Evans, Greenpeace; Paul Fenn; Barbara Hale, Assistant General Manager for Power, San Francisco Public Utilities Commission.
Amended by combining the resolution contained in File 051417 herewith.
Continued to October 6, 2005.

9/15/05, CONTINUED AS AMENDED.

10/6/05, CONTINUED. Speakers: None. Continued to October 13, 2005.

10/13/05, CONTINUED TO CALL OF THE CHAIR. Heard in Committee. Speakers: Ken Bruce, Budget Analyst's Office; Catherine Rauschuber, Budget Analyst's Office; Theodore Lakey, Deputy City Attorney; Monique Zmuda, Deputy Controller; Joe Cohn, Deputy City Attorney; Samantha Rogers, Greenpeace; Dr. Ahimsa Porter Sumchai; Paul Fenn; Barbara Hale, Assistant General Manager for Power, San Francisco Public Utilities Commission; Gloria Young, Executive Officer, Local Agency Formation Commission (LAFCO).

ADJOURNMENT

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051907 **[Minimum Compensation Ordinance]**

Supervisors Ammiano, McGoldrick

Ordinance amending the San Francisco Administrative Code by amending Sections 12P.2, 12P.3, 12P.4, 12P.5, 12P.6, 12P.7 and 12P.8, and by adding Sections 12P.5.1, 12P.6.1 and 12P.6.2, to amend the Minimum Compensation Ordinance by making both substantive and clarifying changes with respect to: the obligations imposed on Contractors; notification, investigation, auditing, inspection, enforcement and settlement procedures; the withholding of contract payments; provisions relating to waivers; certain definitions, including the definition of Covered Employees; an increase in the hourly wage rate for all employees; the assessment of liquidated damages; and the process for determining whether a Contractor has violated the Ordinance and for the administrative appeal of such determinations.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051908 **[Health Care Accountability Ordinance]**

Supervisors Ammiano, McGoldrick

Ordinance amending the San Francisco Administrative Code by amending Sections 12Q.2.1, 12Q.2.2, 12Q.2.9, 12Q.3, 12Q.4, 12Q.5 and 12Q.6, and adding Sections 12Q.5.1 and 12Q.5.2, to: change the requirements of the Health Care Accountability Ordinance with respect to health benefit plans, exemptions for certain categories of employees and agreements, and the payment rates due from employers; authorize the Health Commission to increase the payment rates; authorize the withholding of contract payments; make both substantive and clarifying changes with respect to obligations imposed on Contracting Parties for notification, investigation, auditing, inspection, enforcement, and settlement procedures; revise procedures for the assessment of liquidated damages; establish a process for determining violations and for the administrative appeal of such determinations; and ratify certain administrative actions.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051916 **[Increasing liquidated damages and civil penalty provisions from up to $2,500.00 to up to $5,000.00 for violations of the First Source Hiring Program]**

Supervisor Mirkarimi

Ordinance amending the San Francisco Administrative Code by amending sections 83.10 and 83.12 of the First Source Hiring Program to increase the liquidated damages and civil penalty provisions from up to $2,500.00 to up to $5,000.00 for every new hire for an entry level position improperly withheld from the first source hiring process.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051919 **[Worker Health Care Security Ordinance]**

Supervisor Ammiano

Ordinance amending the San Francisco Administrative Code by adding Sections 14.1 through 14.10, to require that employers operating within San Francisco make health expenditures on behalf of employees, set penalties and provide for enforcement, and creating a health security task force to analyze among other related issues, the desirability and feasibility of imposing a fee on employers to provide health care for employees.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051924 **[Establishing Maximum Work Hours For General Assistance Programs]**

Supervisors McGoldrick, Ammiano

Ordinance amending Chapter 20, Article VII, to add Section 20.58.6 to provide that the maximum number of hours the Department may require General Assistance recipients to work shall be calculated by dividing the Maximum Monthly Assistance Grant under Section 20.57 of this Chapter by the hourly wage rate established under Section 12P.3(b)(3) of the Administrative Code and by amending Chapter 20, Article VIII, Section 20.77.6 to provide that the maximum number of hours of activities the Department of Human Services may require of participants in the Personal Assisted Employment Service Program shall be calculated by dividing the Maximum Monthly Assistance Grant by the Minimum Compensation Wage Rate.

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Know Your Rights Under the Sunshine Ordinance

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City and County exist to conduct the people's business. The Sunshine Ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. For information on your rights under the Sunshine Ordinance (Chapter 67 of the San Francisco Administrative Code) or to report a violation of the ordinance, contact Frank Darby by mail to Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco CA 94102 by phone at (415) 554-7724, by fax at (415) 554-7854 or by email at sotf@sfgov.org
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BUDGET AND FINANCE COMMITTEE
S.F. BOARD OF SUPERVISORS
CITY HALL, ROOM 244
1 DR. CARLTON GOODLETT PLACE
SAN FRANCISCO, CA 94102-4689

IMPORTANT HEARING NOTICE!!!

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 554-7642
FAX (415) 252-0461

November 24, 2005

TO: Budget and Finance Committee

FROM: Budget Analyst

SUBJECT: December 1, 2005 Budget and Finance Committee Meeting

Item 1 - File 05-1684

Note: This item was continued by the Budget and Finance Committee at its meeting of November 3, 2005.

Departments: Mayor's Office
Treasure Island Development Authority (TIDA)

Item: Ordinance reappropriating $254,500 of General Fund salary monies from the Mayor's Office to the Treasure Island Development Authority salaries account to fund 18 months of severance pay and benefits in order to fulfill the contractual obligations to the former Executive Director of the Treasure Island Development Authority.

Amount: $254,500

Source of Funds: Mayor's Office FY 2005-2006 General Fund Salaries

Background: The Treasure Island Development Authority (TIDA) is a nonprofit public benefit corporation established by the Board of Supervisors on May 2, 1997 (Resolution No. 244-97-003). TIDA's purpose is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the former Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City. TIDA is governed by a seven-member Board of Directors. All seven members are appointed by the Mayor. In addition, the member of the Board of Supervisors who represents Supervisorial District 6, in which Treasure Island is located, sits as an

ex-officio, non-voting member of the TIDA Board of Directors.

On October 12, 2005, the TIDA Board of Directors terminated the employment of the former Treasure Island Executive Director, Mr. Tony Hall, without cause. Attachment I, provided by Mr. Donnell Choy of the City Attorney's Office, is a copy of the Employment Agreement, executed on August 4, 2004 between TIDA and Mr. Hall.

In accordance with Section 7 of the attached Employment Agreement, Mr. Hall's termination is effective "upon at least thirty (30) days advance written notice to Hall." According to Mr. Choy, Mr. Hall received written notice on October 12, 2005 and therefore his effective termination date is November 11, 2005.

Section 7 of the attached Employment Agreement also states:

"In the event of a termination without a determination of cause, Hall shall receive an amount equal to 18 months salary, or an amount equivalent to the salary that would have been paid for the remaining term of this Agreement, whichever is less. This amount shall be paid in equal increments in accordance with the Authority's pay schedule, but in no event less frequently than monthly; provided, however, that the Authority may, in its sole discretion, determine to pay out this amount in a lump sum. In the event of termination without a determination of cause, the Authority shall also pay any amounts required to provide Hall with health benefits for 18 months or the remaining term of this Agreement, whichever is less."

According to Mr. John Farrell of TIDA, TIDA's "pay schedule" is on a bi-weekly basis and pay in "equal increments" refers to bi-weekly payments.

As shown in Section 2 of the attached Employment Agreement, Mr. Hall's contract expires on January 8, 2008, or nearly 26 months from the November 11, 2005 termination date. Therefore, in accordance with Section 7 of the attached Employment Agreement, since 18 months

is less than the remaining 26 months under the term of the Employment Agreement, Mr. Hall is entitled to 18 months of salary and health benefits.

According to Ms. Monique Zmuda of the Controller's Office, 18 months of Mr. Hall's annual salary of $159,998 and health benefits is $254,500, the amount which serves as the basis of this subject request (see Comment No. 2).

Description: The proposed ordinance would authorize the reappropriation of $254,500 of General Fund salary monies from the Mayor's Office FY 2005-2006 budget to the Treasure Island Development Authority (TIDA) salaries account to fund the 18 months of salary and health benefits, as determined by the Controller's Office, which is due to Mr. Hall, the former Executive Director of Treasure Island in accordance with the Employment Agreement between TIDA and Mr. Hall.

Fiscal Impact: According to Ms. Noelle Simmons of the Mayor's Budget Office, even if the proposed requested $254,500 reappropriation of salary monies from the Mayor's Office to TIDA were not approved by the Board of Supervisors, there would still be a projected deficit of approximately $8,607 in the Mayor's Office FY 2005-2006 salary budget as of June 30, 2006. However, according to Ms. Simmons, if this proposed $254,500 reappropriation of funds is approved, the projected deficit in the Mayor's Office FY 2005-2006 budget would increase to $263,107 as of June 30, 2006 ($8,607 plus $254,500). According to Ms. Simmons, such a deficit of $263,107 would require the Mayor's Office to lay-off an estimated 6.0 FTEs in order to transfer the requested $254,500 to TIDA as is being requested under this subject ordinance.

Comments: 1. According to Mr. Farrell, the total amount due to Mr. Hall under the Employment Agreement between TIDA and Mr. Hall is $281,826 or $27,326 more than the subject requested amount of $254,500, based on Mr. Farrell's interpretation of the Employment Agreement and subsequent amendment of also paying Mr. Hall for employee health, dental and retirement contributions, plus a cost of living increase (COLA) of 2.2 percent. However, after reviewing Mr. Farrell's assumptions, Mr. Choy has informed the Budget Analyst that retirement contributions should not

be added to the severance pay and that health and dental benefits should be funded separately instead of being added to Mr. Hall's severance pay.

2. Ms. Zmuda states that based on preliminary first quarter salary spending (July 1, 2005 through September 30, 2005), TIDAs FY 2005-2006 budget is not projected to have a salary savings as of June 30, 2006[1], to pay for the amount due to Mr. Hall. In addition, the amount Ms. Zmuda calculated to fund the severance pay and benefits included Mr. Hall's base salary and health benefits, but did not include dental benefits or the 2.2 percent COLA which Mr. Hall received in August of 2005.

Based on the Budget Analyst's calculations, the correct amount for severance pay and benefits should include dental benefits of $1,086 annually ($1,629 for 18 months) and the 2.2 percent COLA of $3,520 annually ($5,280 for 18 months). Therefore, the proposed supplemental appropriation should be increased by $6,909 to fully fund Mr. Hall's severance pay and health and dental payments ($1,629 plus $5,280) to a revised total amount of $261,409($254,500 plus $6,909).

3. Attachment II, provided by Ms. Claudine Cheng, President of the TIDA Board of Directors, is a letter to the Budget Analyst's Office dated October 25, 2005, responding to how TIDA plans to pay for the severance pay due to Mr. Hall if this proposed ordinance appropriating General Fund monies were not approved by the Board of Supervisors. Ms. Cheng states: "Mr. Hall's salary was included in the TIDA annual budget for Fiscal Year 2005-2006. Since the gross amount of his incremental severance payments would be the same as the gross amount of the paychecks he is receiving according to TIDA's pay schedule, there would be no need to amend TIDA's budget for the current fiscal year. If TIDA decided to hire another Executive Director, there might be a need to amend TIDA's budget, but no decision has yet been made in that regard. In addition, other staffing and/or operational changes during the coming

[1] Ms. Zmuda states that the City's accounting system FAMIS reports may not provide an accurate representation of the TIDA budget. According to Ms. Zmuda, the Controller's Office has begun an audit of TIDA in order to determine TIDA's precise fiscal status.

months could impact the need to amend the budget even if a new Executive Director is hired."

4. The Budget Analyst notes that at this time, TIDA plans to pay Mr. Hall on a biweekly basis to fulfill its contractual obligation with Mr. Hall, instead of making a lump sum payment, which has not been approved by TIDA as of the writing of this report. Either biweekly payments or a lump sum payment are provided for under Section 7 of the attached Employment Agreement as alternative methods of payment to Mr. Hall. Ms. Cheng states in Attachment II that, as of the writing of this report, Mr. Hall will receive "incremental payments" (biweekly payments).

5. If TIDA were to make biweekly payments, instead of making a lump sum payment to Mr. Hall, TIDA would need to fund \$113,951, representing 17 biweekly payments of \$6,703 in FY 2005-2006 from November 11, 2005 to June 30, 2006. The remaining \$147,458 (\$261,409 less \$113,951) would then be budgeted and paid in biweekly payments during FY 2006-2007.

Recommendations:

1. In accordance with Comment 2 above, the proposed supplemental appropriation should be increased by \$6,909 to fully fund Mr. Hall's severance pay, including the 2.2 percent COLA, and health and dental payments to a revised total amount of \$261,409 (\$254,500 plus \$6,909).

2. Approval of the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.

BOARD OF SUPERVISORS
BUDGET ANALYST

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made this 4th day of AUGUST, 2004, by and between the Treasure Island Development Authority (the "Authority"), and Tony Hall ("Hall"), an individual.

WHEREAS, under the Authority's Articles of Incorporation and Bylaws, the Authority, acting through its Board of Directors, has the power, subject to applicable laws to, among other things, appoint and remove, at the pleasure of the Board of Directors, all of the Authority's officers, agents, and employees, and prescribe powers and duties for them that are consistent with law, and with the Authority's Articles of Incorporation and the Bylaws,

Now therefore, in consideration of the mutual promises set forth, the Authority and Hall represent, promise and agree as follows:

1. **Appointment.** Under the Authority's Articles of Incorporation and Bylaws, the Authority hereby appoints Hall Executive Director of the Authority. Hall hereby agrees to and accepts this appointment. Hall is an employee of the Authority.

2. **Term.** The term of this contract is from August 5, 2004, until January 8, 2008, unless earlier terminated as provided elsewhere in this Agreement.

3. **Authority.** Hall shall be the Executive Director of the Authority.

4. **Salary.** For fiscal year 2004-2005, Hall's salary shall be the salary currently budgeted for the Executive Director in the Treasure Island Authority budget for fiscal year 2004-2005 ($159,998). For any time period after July 1, 2005, Hall shall be entitled to, at a minimum, a yearly cost of living increase, an incentive bonus under criteria to be set by the Authority, and any further increase approved by the Authority. Hall's salary shall be subject to annual review.

5. **Health Benefits, Pension and Vacation.**

Health Benefits. The Authority shall provide Hall with health benefits through the Health Service System of the City and County of San Francisco at no cost to Hall. The Authority shall enact any resolution required by San Francisco Administrative Code Section 16.700 to make Hall eligible to participate in the Health Service System, and any resolution required by Administrative Code Section 16.701 to establish the employer contributions required by this paragraph.

Pension. The Authority shall apply to California's Public Employees' Retirement System (CalPERS) for a contract between the Authority and CalPERS for CalPERS to provide pension benefits to Hall. This application shall be initiated and completed as soon as reasonably possible.

Vacation. Hall shall be entitled to four weeks of paid vacation per year.

6. **Performance Review and Evaluation.** At the end of the first year, and every subsequent year of this Agreement, the Authority shall conduct an annual performance review to evaluate Hall's performance and review his compensation, which shall be set in accordance with paragraph 4.

7. **Termination of Agreement.** After August 6, 2005, the Authority may terminate this Agreement at any time at its convenience, without cause, and without stating any reasons therefore, and upon at least thirty (30) days advance written notice to Hall. Upon the expiration of the notice period, Hall's employment will terminate automatically and Hall's compensation and benefits shall cease except to the extent provided in this Paragraph 7.

In the event of a termination without a determination of cause, Hall shall receive an amount equal to 18 months salary, or an amount equivalent to the salary that would have been paid for the remaining term of this Agreement, whichever is less. This amount shall be paid in equal increments in accordance with the Authority's pay schedule, but in no event less frequently than monthly; provided, however, that the Authority may, in its sole discretion, determine to pay out this amount in a lump sum. In the event of termination without a determination of cause, the Authority shall also pay any amounts required to provide Hall with health benefits for 18 months or the remaining term of this Agreement, whichever is less.

The Authority may terminate this Agreement at any time in the event that the Authority finds cause for termination. In that event, compensation to Hall shall cease immediately upon the termination. Cause for termination is defined as: (a) conviction, guilty plea, or nolo contendere plea to (i) any felony or (ii) any misdemeanor in any way related to his job responsibilities or past or present status as a public official; (b) any act of willful misconduct or dishonesty related to his past or present positions with the City, (c) any willful violation of the Authority's written policies, including but not limited to those prohibiting discrimination or harassment in the workplace, (d) any willful or habitual failure to perform, or an incapacity to perform, the duties of the position, or (e) any willful conduct unbecoming a public official in the position of Executive Director of the Authority. A determination of cause shall be made within the sole discretion of the Authority and without any requirement of an evidentiary hearing. Prior to terminating Hall for cause, the Authority shall provide Hall with notice of the conduct that consitutes cause and Hall and the Authority shall engage in at least one session of mediation. Hall does not waive any right he may have to challenge the Authority's decision in a court of law.

8. **Resignation, Death, Incapacity.** Hall may resign Hall's appointment upon at least forty-five (45) days' advance written notice to the Authority or any shorter period agreed to by the Authority in its sole and absolute discretion. Any compensation due under the terms of this Agreement shall cease upon termination of service under this paragraph. If Hall's services are terminated by death or incapacity, compensation due under the terms of this Agreement shall cease on the day after death or incapacity.

9. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California and enforced only in a state or federal court located in San Francisco, California.

10. **Notices.** All notices and any other written communication required or permitted to be served hereunder or by law shall be in writing and be deemed served by delivering or mailing the same, postage prepaid, and addressed as follows:

To TIDA:	Claudine Cheng President Treasure Island Development Authority 410 Palm Avenue, Building 1 San Francisco, CA 94130
To: Tony Hall	Tony Hall Executive Director Treasure Island Development Authority 410 Palm Avenue, Building 1 San Francisco, California 94103

Either party may modify the address at which it shall receive notice under this Agreement by three days' prior written notice to the other party.

11. **No Assignment.** This Agreement may not be assigned, except that the Agreement shall extend to any entity with or into which the Authority may merge or consolidate under law.

12. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties and supercedes all prior oral or written understandings between the parties. There are no oral or written covenants, inducements, promises or agreements between the parties except as contained herein. Nothing contained in this Agreement may be modified, altered or amended, except in writing signed by and approved by the Authority and Hall in the same manner as this Agreement.

13. **Severability.** If any provision of this Agreement is held to be invalid or unenforceable, the remainder of this agreement shall remain in full force and effect.

In Witness whereof, the parties hereto have affixed their signatures as of the date and year first above written.

This Agreement may be executed in counterparts containing original signatures.

Tony Hall

Tony Hall

AUTHORIZED BY

Treasure Island Development Authority

RESOLUTION NO. 04-185-8/04

ADOPTED: August 4, 2004

ATTESTED:

Secretary, Treasure Island Development Authority

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Pursuant to TIDA Resolution No. 04-185-8/04

TREASURE ISLAND DEVELOPMENT AUTHORITY

By ______ for Claudine Cheng
Claudine Cheng
President

APPROVED AS TO FORM:

Dennis J. Herrera
City Attorney

By ______
Deputy City Attorney

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CITY & COUNTY OF SAN FRANCISCO

GAVIN NEWSOM, MAYOR

TREASURE ISLAND DEVELOPMENT AUTHORITY
410 AVENUE OF THE PALMS,
BLDG. ONE, 2ND FLOOR, TREASURE ISLAND
SAN FRANCISCO, CA 94130
(415) 274-0660 FAX (415) 274-0299
WWW.SFGOV.ORG/TREASUREISLAND

October 25, 2005

Rebekah Krell
Budget Analyst's Office
San Francisco Board of Supervisors
1390 Market Street, 11th Floor
San Francisco, CA 94102

Re: Treasure Island Development Authority
Severance Payments

Dear Ms. Krell:

This letter responds to your request for a written statement as to how the Treasure Island Development Authority plans to pay for Mr. Hall's severance payments. Specifically, you asked:

> "Assuming the proposed ordinance does not pass-- how is TIDA planning to pay for Mr. Hall's severance? ie, from what funding source?"

Your question arises out of an ordinance proposed by Supervisor Sandoval to re-appropriate funds from the Mayor's Office to pay for Mr. Hall's severance payments.

Mr. Hall's Employment Agreement states in the event his agreement is terminated without cause, Mr. Hall "shall receive an amount equal to 18 months salary .... to be paid in equal increments in accordance with the Authority's pay schedule...." The Employment Agreement also states that "the Authority may, in its sole discretion, determine to pay out this amount in a lump sum." As you know, at its meeting on October 12, 2005, the TIDA Board of Directors elected to terminate Mr. Hall's Employment Agreement without cause, but did not exercise its right to pay his severance amount in a lump sum. The TIDA Board may decide to exercise that right in the future, but as of today, it has not exercised that right. Therefore, after Mr. Hall's employment with TIDA terminates on November 12, 2005, he will receive his severance amount in incremental payments in accordance with TIDA's pay schedule.

Mr. Hall's salary was included in the TIDA annual budget for Fiscal Year 2005-2006. Since the gross amount of his incremental severance payments would be the same as the gross amount of the paychecks he is receiving according to TIDA's pay schedule, there would be no need to amend TIDA's budget for the current fiscal year. If TIDA decided to hire another Executive Director, there might be a need to amend TIDA's budget, but no decision has yet been

made in that regard. In addition, other staffing and/or operational changes during the coming months could impact the need to amend the budget even if a new Executive Director is hired.

If TIDA continues to pay Mr. Hall's severance payments in increments, then it will have to incorporate those payments into its proposed budget for Fiscal Year 2006-2007. As of this writing, the TIDA Board has not determined its budget for the next fiscal year.

Sincerely,

Claudine Cheng
President
TIDA Board of Directors

cc: Members of the TIDA Board of Directors
Donnell Choy, Deputy City Attorney

Item 2 – File 05-1737

Note: This item was continued by the Budget and Finance Committee at its meeting of November 3, 2005.

Item: Hearing to discuss the Budget Analyst's September 30, 2005 report on the Public Education Enrichment Fund.

Description: In March of 2004, San Francisco voters approved Proposition H, which amended the City's Charter and established the Public Education Enrichment Fund to augment the funding for the San Francisco Unified School District (SFUSD) and the Children and Families First Commission. Under Charter Section 16.123-7, the Budget Analyst is required to prepare and submit recommended budget reductions and/or revenue increases to the Board of Supervisors no later than October 1 of each year to fund the Public Education Enrichment Fund in the subsequent fiscal year.

For FY 2006-2007, funding of the Public Education Enrichment Fund is mandated to be $20 million. The Board of Supervisors previously appropriated $13.3 million of the $20 million requirement for FY 2006-2007, in the City's FY 2005-2006 budget. Therefore, the remaining funding requirement for the Public Education Enrichment Fund for FY 2006-2007 is $6.7 million ($20 million required less $13.3 million previously appropriated).

The proposed hearing is to discuss the Budget Analyst's report, which was submitted to the Board of Supervisors on September 30, 2005. That report identifies potential General Fund budget reductions of approximately $5,889,052 and general discretionary revenue increases of a minimum of $777,615, or a total of approximately $6,666,667 to fund the remaining FY 2006-2007 Public Education Enrichment Fund requirement of $6.7 million, as noted above. In addition, the Budget Analyst's Report provides background and recommendations for identifying potential City in-kind services for the SFUSD.

Comment: We are prepared to summarize the recommendations contained in the Budget Analyst's September 30, 2005 report on the Public Education Enrichment Fund and to respond to any questions at the Budget and Finance Committee's meeting of December 1, 2005.

Item 3 – File 05-1767

Department:

Municipal Transportation Agency (MTA)
Department of Parking and Traffic (DPT)

Item: Resolution approving a new contract, in an amount not to exceed $10,195,471, between the Department of Parking and Traffic (DPT) and ACS State and Local Solutions, Inc. (ACS) for administrative support services and future expansion of the Red Light Photo Enforcement Program (the "Program") for a not-to-exceed five-year period from December 15, 2005 to December 14, 2010, including a three-year base period of December 15, 2005 to December 14, 2008, and two one-year renewal options, to December 14, 2010.

Contract Amount: Not to exceed $10,195,471

Source of Funds: Red Light Violation citation fees (see below)

Description: The proposed resolution would approve a new contract with ACS State and Local Solutions (ACS), in an amount not to exceed $10,195,471 for the five year period, including the base period from December 15, 2005 through December 14, 2008. Under the proposed contract, the City would have the option to renew the contract for two additional years, or until December 14, 2010, for a not to exceed total term of five years.

The Red Light Photo Enforcement Program, which was initiated in the City in December of 1998, automatically photographs vehicles that enter certain intersections after the beginning of a red signal indication. The photographs are reviewed by the contractor[1] and a sworn Police Officer for compliance with established business rules and for

[1] According to Mr. Tabin Chung, DPT Program Manager for the Red Light Vehicle Enforcement Program, the contractor performs analyses of each recorded event to determine if a violation occurred meeting the criteria set forth in the program's business rules. Those events that are determined to be violations are sent for a final review by a sworn Police Officer who either approves and signs the citation or has the authority to reject it.

quality control rules. Drivers of vehicles found to have entered the intersection in violation of the State of California Vehicle Code are issued moving violations. The original contract for the Red Light Photo Enforcement Program was awarded to PRWT Services, Inc. (PRWT), by the Department of Parking and Traffic (DPT) for approximately a four year period from September 15, 1998 through October 8, 2002. The contract has been amended nine times since then including an amendment to extend the term of the contract to its current expiration date of December 14, 2005, resulting in a seven year, 3 month term.

According to Mr. Tabin Chung, Program Manager of the DPT's Red Light Photo Enforcement Program, the original contract in the amount of not to exceed $9,000,000, was not submitted for Board of Supervisors approval because such approval was not required for contracts with a value of less than $10,000,000 in City expenditures and a term of less than 10 years. Mr. Chung advises that the original contract and all nine amendments were approved by either the Parking and Traffic Commission or the Municipal Transportation Agency.

Under the existing contract, PRWT is responsible for the installation, maintenance and operation of photographic equipment at 23 intersections in the City. Attachment I to this report provides a list of the 23 intersections. Other duties required under the contract include film collection, image analysis, processing and mailing citations, and coordination with DPT, the San Francisco Police Department (SFPD), the Superior Court, the City Attorney's Office and other City departments involved in the operation of the Red Light Photo Enforcement Program.

Mr. Chung states that in comparing the proposed new contract with ACS, with the existing PRWT contract, the new contract with ACS

> "...allows for greater control and oversight by the City. While the services to be provided are largely the same, the Scope of Work has been re-written including (a) changes in the scope of work, (b) changes in technology; (c) changes in the state law prohibiting compensating the Contractor based on number of citations issued; and (d) changes in the California Vehicle Code's requirements for issuing red light photo citations and confidentiality."

According to Mr. Bond Yee, Acting Executive Director for the DPT, since 1996, when the Red Light Photo Enforcement Program was first implemented as a Pilot Program, the Program has proven to be a valuable tool in reducing red light - related collisions by up to 40 percent at the 23 enforced intersections. Mr. Yee advises that the photo enforcement program has generated a "spill-over" benefit of reducing red light-related collisions at neighboring intersections other than the 23 intersections under the Program.

Existing Contract with PRWT Services, Inc:

The City's existing contract with PRWT Services, Inc (PRWT) has a not to exceed amount of \$9,000,000 over seven years and three months[2], including a not to exceed amount of \$7,200,000 (80 percent) for construction and administrative support services[3], and a not to exceed amount of \$1,800,000 (20 percent) for repairs due to third party damages, system expansion, training expenses, and legal fees related to the operation of the Red Light Photo Enforcement Program at the 23 existing designated intersections in the City.

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[2] Amendments increased the PRWT contract term from an original term of four years to the existing seven year, 3 month term (September 15, 1998 to December 15, 2005).

[3] Administrative support services includes costs for maintaining and administering the Program, including transportation, rent, administrative overhead, system support, camera rotation, film, development of photographs and mailing, telephone, office equipment and supplies, digital cameras, violations processing, and operations and management staff.

According to Mr. Chung, the original approximately four-year contract (September 15, 1998 through October 2, 2002) with PRWT, was amended nine times to the current seven year, three month term with a termination date of December 14, 2005. The existing agreement with PRWT provides for up to 31 intersections to be photo enforced at a not-to-exceed cost of $9,000,000. To date, Mr. Chung advises that 23 (see Attachment I) of the 31 Red Light Photo Enforcement Program intersections have been placed in operation and are currently enabled for automated photo enforcement under this contract. Mr. Chung states that the City has not selected the intersections for the eight additional sites (31 less 23) because the DPT determined that digital technology was replacing traditional film and DPT wanted to examine such technology before investing into additional intersection sites.

Under the proposed contract, ACS would enforce the same 23 intersections shown in Attachment I as are being enforced under the existing contract with PRWT. Further, Mr. Chung states that under the proposed contract with ACS, the City may select up to 10 more intersections for a total of 33 Red Light Photo Enforcement Program intersections. Under the proposed contract, ACS is required to provide the newer digital technology for these 10 additional intersections. Mr. Fleck advises that he does not have a set schedule for installing the newer digital technology at the 10 additional intersections and the locations have not yet been designated by the City, but he is confident it will occur within one year.

Mr. Chung advises that total expenditures for the PRWT contract from September 15, 1998 through December 14, 2005 are estimated to be $7,337,217[4], or an average cost of $84,336 per month for the 87 month period.

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[4] Although the existing not to exceed contract with PRWT is for a not to exceed amount of $9,000,000, because the sites were not all in place at the beginning of the contract period and were installed and made operational over time, the total estimated expenditures under the contract are $7,337,217.

Contract Comparisons and Budgetary Details:

The proposed new contract with ACS would have a total not to exceed amount of $10,195,471, for the full five-year term (60 months) and includes a not to exceed amount of $4,739,160 or 46.5 percent for program administration support services for the 23 existing designated intersections over five years or $78,986 per month for 60 months, plus a not to exceed amount of $5,456,311, or 53.5 percent, for future expansion to add and operate 10 additional intersections, for a total of 33 intersections. The $5,456,311 in maximum contract costs for the future expansion to add 10 additional intersections, is comprised of $1,374,780 for program operation and administration support services, at an additional up to $22,913 per month for 60 months over five years, $3,154,700 for costs related to the expansion to add 10 additional intersections, such as system equipment lease fees of $41,360 per month, one-time construction design and consultation costs of $673,100, and a 10 percent contingency fee of $926,831. Therefore, the total average monthly cost over 60 months including one-time costs and the contingency fee is $169,925.

Attachment II, provided by Mr. Jack Lucero Fleck, Deputy Director and City Traffic Engineer for the DPT, provides background information and budgetary details concerning the proposed new contract with ACS. Attachment II outlines the differences between the existing not to exceed $9,000,000 contract with PRWT for seven years and 3 months (September 15, 1998 through December 15, 2005) or a total of 87 months, at an average monthly not to exceed cost of $103,448 and the proposed not to exceed $10,195,471 contract with ACS for the full five-year period, including the two one-year renewal options or a total of 60 months, or an average monthly cost, including one time costs and the contingency fee of $169,925, including the two one-year renewal options. A summary of the differences between the existing PRWT contract

and the proposed ACS contract is provided in the Table below:

Table 1: Comparison of Key Attributes of the Existing and Proposed Contracts for the Red Light Photo Enforcement Program

	PRWT Services, Inc.	ACS State and Local Solutions, Inc
Contract Maximum	Not to Exceed $9,000,000 for a seven-year, 3 month or 87 month period (September 15, 1998 through December 14, 2005) For up to 31 intersections*	Not to Exceed $10,195,471 for a five-year, or 60 month period (December 14, 2005 through December 14, 2010) For up to 33 intersections
Budgetary Provisions	(a) $100,000 per month** for administrative support services for the existing 23 enforced intersections (b) $1,800,000 variable costs for expansion, legal fees, third-party damages	(a) $78,986 per month for administrative support services for the same 23 enforced intersections; (b) $22,913 per month for administrative support services for an additional 10 intersections ($101,899 per month for all 33 intersections) (c) $41,360 per month for system equipment lease fees for an additional 10 intersections (d) $673,100 construction design and consultation for 10 locations (e) $926,831 10% contingency
Technology	Uses traditional film technology with 35 mm film	The additional 10 enforced intersections will use new Integrated Digital imaging/ video technology
City Control/ Accountability	Not addressed	Adds new sections (a) Quality Assurance Audits, (b) Standards of Performance, and (c) Measures of Effectiveness to ensure every violation recorded by the System is issued a citation.
Confidentiality	Not required	Places safeguards on the confidentiality of the personal information collected as part of the enforcement program[5]

(*) As noted above, 23 intersections have been installed and operated at a total projected contract expenditure of $7,337,217 through December 14, 2005.

(**) Mr. Chung advises that currently the City pays $100,000 per month to PRWT for administrative support services for the existing 23 intersections.

(***) The increased cost for the 10 additional intersections of $22,913 monthly for administrative support services plus $41,360 monthly for lease fees totals $64,273 monthly or $3,856,380 over the 60 month contract.

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[5] This is in response to recent changes to the California Vehicle Code's requirements for issuing red light photo citations.

The average monthly cost of $169,925 for the proposed ACS contract, which includes one-time costs and the contingency fee, exceeds the average monthly cost of $103,448 for the existing PRWT contract, by $66,477 or 64.3 percent. However, a total cost comparison of the existing contract with the proposed contract is somewhat problematic since the proposed contract provides for an increased program expansion (10 additional intersections instead of eight) and requires the installation and operation of new digital technology. However, administrative support services costs can be compared. As shown in the table above, under the existing contract with PRWT, the City pays $100,000 per month to administer the existing 23 enforced intersections. Under the proposed contract, the City would pay ACS $78,986, or $21,014 per month less, to administer the existing 23 enforced intersections and $101,899 per month to administer 33 enforced intersections should they be added in the future.

According to Mr. Chung, the source of funds for the proposed contract amount of not to exceed $10,195,471 will be the portion of Red Light Photo Violation citation fees that the City receives back from each paid citation. According to Mr. Fleck, the current Red Light Photo Violation citation fee[6] is $370.90, of which the City receives approximately 40 percent, or $148.36 per citation and the State receives 60 percent or $222.54. According to Mr. Chung, since the inception of the Program in December of 1998[7], the DPT has issued approximately 80,000 Red Light Photo Violation citations. Over the past five years the number of Red Light Photo Violation citations issued averaged 11,777 per year or approximately 1.4 citations per day for each of the 23 intersections (11,777 per year divided by 365 days divided by 23 locations equals

[6] According to Mr. Fleck, the amount and the actual distribution of paid citation fees is determined by State statutes under the Vehicle, Penal and Government Codes.

[7] Although the contract with PRWT was entered into on September 15, 1998, the Red Light Photo Enforcement Program did not begin until December of 1998 "due to a delay in the transition from the pilot to the final contract completed", according to Mr. Fleck.

1.4 citations per day for each of the 23 intersections), as shown below:

Calendar Year		Citations Issued
2001	-	14,200
2002	-	9,310
2003	-	12,400
2004	-	12,700
2005	-	10,275 (annualized based on 6,850 through August.)
5-year avg.	-	11,777

As of August of 2005, the DPT issued a total of 6,850 citations, or 10,275 on an annualized basis. Based on the Red Light Violation citation fee of \$370.90 and the City's 40 percent allocation, the City is projected to receive up to \$1,524,399 in revenue from the Red Light Photo Citation Program in 2005 (10,275 citations times \$370.90 times 40 percent.)

Mr. Fleck, has provided an explanation of the full costs and revenues pertaining to the Red Light Photo Enforcement Program on Page 2 of Attachment II. In Attachment II, Mr. Fleck advises that, although the fees are established by State statute, there are several variables that impact the amount of the fees that the City ultimately receives including (a) options to resolve a traffic citation by either paying the full bail amount or attending traffic school and (b) the traffic court commissioner's discretion to reduce both the bail amount and the fee to attend traffic school. However, Mr. Fleck states, "even with all the variables, the Red Light Photo Enforcement Program has never operated in deficit since the Program's inception in 1998."

Mr. Fleck advises that any net revenues remaining after paying for the administration of the Red Light Photo Program, including payments to the contractor, the City project manager, any third party claims that result in damages, or other costs

of operating the program, are to be expended to improve traffic safety through (a) the Livable Streets Program, (b) the School Safety Program, and (c) toward expansion of the additional 10 intersections in the proposed contract. Mr. Chung advises, the use of the revenues received by the City's Red Light Photo Enforcement citation fees is not restricted by State legislation. All revenues received by the City are appropriated through the Municipal Transportation Authority (MTA) Annual Budget.

Comments:

1. According to Mr. Chung, ACS was selected for the subject contract in April of 2005 through a competitive Request for Proposal process initiated on November 24, 2004. Mr. Yee reports that four vendors submitted a proposal to the DPT for this contract: ACS State and Local Solutions (ACS), Mulvihill Intelligent Control Systems (Mulvihill), Nestor Traffic Systems (Nestor), and Redflex Traffic Systems (Redflex). As shown in Attachment II, on page 4, provided by Mr. Fleck, ACS scored 696 points or 54.5 points higher than the next highest score of 641.5. As a result, the DPT has recommended that ACS be awarded this subject contract.

On Page 3 of Attachment II, Mr. Fleck describes the Contractor selection process and criteria, provides the names and positions of the six members of the evaluation panel, and contains the scoring summary for the four proposals.

As shown in the Attachment, each of the six panelists rated the vendors' proposals based on the following criteria and relative weights for a total possible score of 900 points (150 points x 6 panelists):

Selection Criteria	Relative Weight
Technology	50 points
Staffing	25 points
Experience	25 points
Interview	25 points
Cost	25 points
Total:	150 points

As shown on page 4 of Attachment II, ACS scored highest on four of the five criteria, including cost. A summary of the four cost proposals is provided in the Table below.

Vendor	Total Cost	Cost Score
ACS	$10,195,471	150.0
Redflex	$17,894,000	73.8
Mulvihill	$11,295,300	117.0
Nestor	$21,999,600	60.0

2. According to Mr. Chung, the Request for Proposals (RFP) was publicized on the City of San Francisco's website and in three newspapers including, the San Francisco Chronicle, the Daily Pacific Publication and the Seattle Daily Commerce.

3. As shown in Table I, the proposed contract with ACS includes $22,913 per month for administrative support services and $41,360 per month for equipment lease fees or a total of $64,273 per month, or $3,856,380 for the 60-month contract term, for the 10 additional intersections. The photographic equipment at the 10 additional intersections have not yet been installed and are not yet operational. In response to the inquiry of the Budget Analyst, Mr. Fleck estimates that of this cost of $3,856,380, $771,276 would not be required during the 60 month contract period, based on an anticipated 12 month delay to install and make the 10 intersections operational ($64,273 times 12 months). Therefore, the Budget Analyst recommends that the proposed contract with ACS be reduced by $771,276, from $10,195,471 to $9,424,195.

4. As noted above, the proposed contract with ACS has an average monthly cost of $169,925 ($10,195,471 divided by 60 months) including one-time costs and the contingency fee, which is $66,477 or 64.3 percent more than the existing contract's not to exceed monthly cost of $103,448 ($9,000,000 divided by 87 months.) However, such increased monthly expenditures, according to Mr. Fleck, are anticipated to be offset by increased revenues from the Red Light Photo Violation citation fees to be paid to the City for new citations issued at the 10 additional intersections.

Recommendations:

1. Amend the proposed ordinance in accordance with Comment No. 3 above, to reduce the not to exceed contract amount by $771,276, by changing the amounts specified on Page 1, line 6, and Page 2, line 1 and line 11, from $10,195,471 to $9,424,195.

2. Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors because the average monthly cost for the proposed contract with ACS is 64.3 percent greater than the average monthly cost of the existing contract with PRWT.

Municipal Transportation Agency
Board of Directors & Parking Authority

MUNI San Francisco Municipal Railway

DPT San Francisco Department of Parking and Traft

To: Robin Courtney
Budget Analysts Office

Through: Bond M. Yee
Acting Executive Director

From: Tabin Chung
Red Light Photo Enforcement Program

Date: November 18, 2005

Subject: BOS Resolution Approving the Contract for the Red Light Photo Enforcement Program

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Dear Ms. Courtney:

This memo is in response to your request for a list of the existing 23 intersections currently equipped f automated red light photo enforcement. The list is presented below. Please call Tabin Chung at 554-2328 if you have any further questions.

(1) 1ST St. & Folsom St. (SB)
(2) 3RD St. & Harrison St. (NB, WB)
(3) 5TH St. & Harrison St. (WB, SB)
(4) 5TH St. & Mission St. (WB, NB, SB)
(5) 5TH St. & Howard St. (WB)
(6) 6TH St. & Bryant St. (NB, SB, EB)
(7) 7TH St. & Mission St. (2NB, WB)
(8) 8TH St. & Harrison St. (WB, SB)
(9) 9TH St. & Howard St. (NB, WB)
(10) 14TH St. & South Van Ness (EB, NB)
(11) 15TH St. & Mission St. (NB, SB)
(12) 19TH Ave. & Sloat Blvd. (NB, SB)
(13) .Bush St. &Van Ness Ave. (NB)
(14) Francisco & Richardson Blvd. (EB, WB)
(15) Franklin & Geary Blvd. (NB, WB)
(16) Fulton & Park Presidio (NB, SB)
(17) Geary & Park Presidio (EB, WB, NB, SB)
(18) Hayes & Polk (WB, SB)
(19) Lake & Park Presidio (NB, SB)
(20) Lyon & Marina (EB)
(21) Pine & Polk (WB)
(22) Pine & Presidio (NB)
(23) 4TH & Howard (WB)

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MUNI San Francisco Municipal Railway — DPT San Francisco Department of Parking and Traffic

To:	Honorable Members Board of Supervisors Budget and Finance Committee
Through:	Bond M. Yee Acting Executive Director
From:	Jack Lucero Fleck Deputy Director and City Traffic Engineer
Date:	November 9, 2005
Subject:	BOS Resolution Approving the Contract for the Red Light Photo Enforcement Program

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Dear Committee Members:

This memo provides supplementary information regarding the proposed Board of Supervisors resolution approving the contract between DPT and ACS State and Local Solutions for administrative support services for the Red Light Photo Enforcement Program. This item is scheduled to be heard at the Budget and Finance Committee meeting on November 17, 2005.

This memo furnishes the following information.

I. Report on the full costs and revenues pertaining to the Red Light Photo Enforcement Program;
II. Description of the selection criteria, relative weights that were used in the contractor selection process, names and positions of the members of the evaluation panel, and scoring summary for the four proposals;
III. Explanation why the existing contractor did not submit a vendor proposal, what their relationship is with the selected vendor, and what their role will be with the selected vendor; and,
IV. A comparison of the proposed $10,195,471 contract and the existing contract for $9,000,000 including the differences between the existing and proposed services, and budgetary differences.

Thank you for the opportunity to provide this information.

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I. Costs and Revenues:

The Red Light Photo Enforcement Program is self-funding. The source of funds for this contract is from the portion of citation fees that the City receives back from each paid citation. Since the programs inception in 1998, the City's portion of each paid citation has been sufficient to pay for the administration of the program. However, this has not always been the case.

During the pilot project, which began in 1996, it became evident that the existing citation and distribution formula at that time was inadequate to fund a full-scale program. San Francisco urged the State Legislature to increase the fine for red light violations in such a manner that would be adequate to make photo enforcement self-financing. With this change, the Legislature also restructured the formula for distributing the fine revenues so local agencies now receive approximately $148 from each fully paid citation.

Funds remaining after paying for the administration of the RLC contract (payments to vendor, project manager, third party damages, other costs of running the program), if any, go to improve traffic safety through the Livable Streets program, the School Safety program, and toward expansion of the System.

Program Revenue and Expenditures for Fiscal Year 2004- 2005 is as follows:

	Revenue	Expenditures
FY 2004-05	$2.2 M	$2.0M

The current fine is $370.90. The fines are distributed by formula between the City and County where the violation occurred and the State. The final distribution results with San Francisco receiving approximately 40% of the full bail amount, with the remaining 60% collected by the State in fees for each paid citation.

The actual distribution of paid citation fees is determined by statutes under the Vehicle Code, Penal Code and Government Code. There are variables that affect the amount the City receives that are independent of the number of citations issued. For instance, there are options to resolve a traffic citation, in lieu of pleading not guilty, a violator can either (1) pay the full bail amount or (2) attend traffic school and pay a fee equal to the bail amount, plus an administrative fee. And finally, the traffic court commissioner also has discretion to reduce both the bail amount and the fee to attend traffic school in any particular case.

However, even with all these variables, the Red Light Photo Enforcement Program has never operated in deficit since the Program's inception in 1998.

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II. Contractor Selection Process:

This was an exhaustive and thorough selection process. An RFP was advertised in November, 2004. The RFP was publicized and advertised in the San Francisco Chronicle, the bids and contracts database within www.sfgov.org, in addition various trade publications were also advised such as the Daily Pacific Publication and Seattle Daily Commerce.

In January, 2005, four contractors submitted written proposals responsive to all requirements in the RFP. These vendors were ACS State and Local Solutions (ACS), Mulvihill Intelligent Control Systems (Mulvihill), Nestor Traffic Systems (Nestor), and Redflex Traffic Systems (Redflex). A professionally qualified and diverse selection panel reviewed and scored each of the written proposals and finally each of the firms was invited to an oral interview before the selection panel.

Each of the six panelists scored the vendors proposal based on the following criteria: Technology (50 points), Staffing (25 points), Experience (25 points), Interview (25 points), and Cost (25 points) for a total possible score of 900 points. The Technology category was further subdivided into nine subcategories including Image Quality, Video Technology and a variety of other technical criteria. Reference checks of each vendor were included in the Staffing category

The scoring process resulted in the following ranking in order from highest to lowest: ACS, Redflex, Mulvihill, and Nestor. As a result, DPT issued a Notice of Intent to Award and enter into contract negotiations with ACS on April 18, 2005. The entire evaluation process was overseen by the Human Rights Commission (HRC) who has also certified the scores and rankings. An HRC representative was also present as an impartial non-scoring observer during the oral interviews.

On April 22, 2005, fourth-ranked Nestor submitted a formal bid protest claiming unfair scoring by the selection panel and requested copies of all scoring documents. In response, and in compliance with the California Public Records Act, DPT transmitted 120 pages of scoring documentation to Nestor detailing all evaluation criteria, calculations, and derivations of final rankings for each panel member.

On April 29, 2005, Nestor formally withdrew their protest of DPT's Notice of Intent to Award. Furthermore, Nestor agreed to extend the prices and other commitments in their proposal through October 31, 2005 in the event that a mutually agreeable contract could not be negotiated with the top ranked firm in a timely manner.

It should also be noted that third-ranked Mulvihill also requested copies of all scoring documentation through their representatives Barbary Coast Consulting. Accordingly, DPT transmitted the same 120-page scoring documentation. To date, no bid protest has been filed by Mulvihill nor have any further bid protests been received from any of the other vendors. The deadline for submitting bid protests was April 22, 2005.

The names and positions of the members of the evaluation panel are as follows:

Bosques, Geneva – Red Light Photo Enforcement Program Manager, City of Fremont

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Chung, Tabin - Automated Photo Enforcement Program Manager, DPT

Curtis, Damon - Assistant Engineer, DPT

Huddleston, Dennis – Los Angeles Police Dept., Automated Photo Enforcement Unit

Valle-Schwenk, David - Associate Engineer, DPT

Xu, Kenneth – Electrical Engineer, Caltrans District 4

A scoring summary for each of the four vendor proposals is as follows:

		RANKING BY TOTAL SCORE					
							TOTAL
Rank	Vendor	Technology	Staff	Experience	Interview	Cost	SCORE
No. 1	ACS	203	117.7	119.7	105.6	150	696
No. 2	REDFLEX	236	110.7	113.7	107.3	73.8	641.5
No. 3	MULVIHILL	216	93.3	104.7	107.4	117	638.4
No. 4	NESTOR	167	104.7	92.7	103.7	60	528.1

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III. Explanation why the existing contractor did not submit a vendor proposal, what their relationship is with the selected vendor, and what their role be with the selected vendor:

At the request of PRWT Services, ACS State and Local Solutions has taken on the role of prime contractor for this project. For this project, it appears that ACS State and Local Solutions was able to submit a more responsive and competitive vendor proposal serving as the prime contractor.

The two companies had been related through the current contract for administrative support services with the Red Light Photo Enforcement Program. Under the current contract, PRWT had served as the prime contractor in partnership with ACS State and Local Solutions serving as a subcontractor providing all technical and equipment services.

A review of the ACS State and Local Solutions proposal shows PRWT Services is not listed as a subconsultant and therefore will not take part in providing services as a part of this upcoming contract. As a part of producing this report, DPT has been informed that PRWT Services will not be a subcontractor on the contract as they do not meet the San Francisco DBE requirements.

PRWT Services still holds the parking citations payment processing contract with the City and its performance of services under that contract shall continue unaffected as the two contracts are completely unrelated.

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IV. A comparison of the proposed $10,195,471 contract and the existing contract for $9,000,000 including the differences between the existing and proposed services, and budgetary differences:

While both contracts provide the same services and functionality, there are some differences between the current contract with PRWT Services and the proposed contract with ACS.

A short overview of the most significant changes follows.

Budgetary Differences:

The existing contract with PRWT Services pays the Contractor $100,000 per month to administer the existing 23 enforced intersections. The proposed contract with ACS State and Local Solutions will pay $78,986 per month to administer the same 23 enforced intersections resulting in an immediate 22% cost savings per month.

The following table reflects the derivation of the Not-to-Exceed contract amount with ACS State and Local solutions of $10,195,471.

	Monthly	Total
Administn Existing Locns	$78,986	$4,739,160
Administn Future Locns	$22,913	$1,374,780
Equipmt Fees Future Locns	$41,360	$2,481,570
Constn Design Future Locns		$673,100
Total	$143,259	$9,268,610
10% Contingency*		$926,861
Contract Total		$10,195,471

**10% Contingency – Encompasses costs to repair future third party damages to the system which are as of yet unknown, legal fees and training costs.*

Technological Differences:

The new contract requires the contractor maintain enforcement at all existing intersections but also includes the option of expanding the System to up to 10 new intersections. The new contract also addresses changes in technology that have occurred in the past several years. For example, the current system utilizes "wet film" technology, which captures images of violations that are developed in the traditional manner on 35 mm film. This system is still reliable, and will continue to be used at existing enforced intersections. New red light camera installations will utilize digital imaging/video technologies that have emerged in the past few years. This new technology will provide the same evidence of violations in a more efficient and economical manner.

Increased City Control/Accountability:

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There are also a few administrative differences and changes that significantly increase efficiency, accountability and increase city control over the program. State law prohibits compensating the Contractor based on number of citations issued. This eliminates any financial incentive on the part of the Contractor to issue as many citations as possible.

In compliance with this law, the Contractor is paid a flat monthly fee regardless of the number of citations issued. The previous contract paid a flat monthly fee of $100,000 for program administration costs of all 23 existing intersections. The new monthly fee will be $101,899 for the expanded system of 33 enforced intersections (includes 10 additional intersections).

While a flat fee payment structure guards against the Contractor from possibly issuing too many citations including those that do not meet the Business Rules simply in order to increase its profit margin, it can also have an equally negative effect on the program. By paying a flat monthly fee to the Contractor, all financial incentive for the Contractor to issue citations has been removed. The Contractor is assured a flat rate each month no matter how many citations are issued. In the worst case, even if no citations are issued, the Contractor can still rely upon receiving his monthly payment.

The new contract has several built-in safeguards to ensure that the program is operated within strict accordance with all City specifications and State Statues governing such enforcement programs. Quality Assurance Audits, Standards of Performance, and Measures of Effectiveness are all new sections that have been added to the contract to ensure every violation recorded by the System is issued a citation if all Business Rules are met. The Quality Assurance Audit allows the DPT Program Manager to randomly audit all rejected citations for compliance and verification of the reason for rejection, including viewing of the rejected citations photos, DMV retrieval information, and all recorded violation parameters. Any violations found to be incorrectly rejected will be subject to liquidated damages. This is a unique feature of this contract which has not yet been implemented anywhere else as yet in the State.

Confidentiality:

The new contract also addresses recent changes to the California Vehicle Code's requirements for issuing red light photo citations. These changes affect the issuance of citations and place safeguards on the confidentiality of the personal information that is collected as a part of the enforcement program.

Other Changes:

Existing Third Party Damage Repairs - Requires Contractor to furnish a fully operational turnkey system refurbished and in like-new condition similar to what would have been provided by a competing system at no cost to City.

Warranty - Warranty of all existing cameras for the life of the contract including diagnosis,repair, and rebuild of the oldest 14 system wet film cameras by factory trained technicians.

Decoy Camera Units – 10 Decoy cameras to be furnished at no cost to the City that flash and record violation data for statistical purposes may be used to determine where best to place live cameras.

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Data Security –Data security specifications have been added specifying encryption methods to be used in the case of broadband transfer of citation evidence, no cost to City.

Public Awareness Campaign - New provision that Contractor will provide public relations resources for the City's Public Awareness Campaign regarding the program.

Supply of Computer Workstations – Supply of 5 computer workstations at no additional cost.

Business Rules for Issuing Citations – Business Rules amended and no longer require age or gender matching, likely to result in higher citation issuance rates.

Quality Assurance Audits - New provision added for Quality Assurance Audits by DPT to ensure proper issuance and contractor adherence to all guidelines and business rules. This is in addition to existing double blind internal review of each violation by Contractor and separate review by the Police Department for all issued citations.

Standards of Performance - New provision for Standards of Performance will establish goals and measures of effectiveness to determine Contractors performance on a quarterly basis.

Warning Signs – New provision that as a part of its included services, Contractor will regularly check and inspect all Red Light Photo Enforcement warning signs posted at the 50 entrances to the City and will notify DPT in the event one is missing or defaced to be in compliance with State requirements regarding the presence of these signs.

Internet Customer Service - Provision for internet viewing of citations by the public and payment of citations through Contractor website.

Expansion of Existing System – Option to expand the system to up to 10 additional intersections utilizing digital imaging cameras.

Warning Period - All newly enforced intersections shall have a 30 day grace period prior to enforcement during which warning notices will be sent out to violators as a public service announcement of the beginning of automated enforcement for that intersection. No cost to City.

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Program Effectiveness:

In 1996, the San Francisco County Transportation Authority authorized $250,000 from sales taxes to begin a pilot Red Light Photo Enforcement Program. In October 1996 San Francisco contracted with two vendors to initiate the pilot project and became the first city in California to begin automated enforcement for red light violations.

Within the first six months of the pilot project the number of red light runners at camera-enforced intersections dropped more than 40 percent. Since that time the program has proven to be a valuable tool in reducing red light related collisions by up to 40% at enforced intersections. In addition, the presence of the photo enforcement program in the City has generated a "spill-over" effect of reducing red light related collisions at neighboring intersections which may not be photo enforced.

There have been over 80,000 citations issued to date. The program has been so successful that now there are about 100 jurisdictions operating a Red Light Photo Enforcement Program nationwide.

Conclusion:

Since 1998, this program has been extremely effective at increasing traffic safety in the City. This new Contract with ACS State and Local Solutions has been very carefully designed and negotiated to ensure that automated enforcement of red light violations continues without any interruption to existing levels of enforcement, adheres to all pertinent laws and regulations governing its operation, and continuously serves as an integrated traffic engineering tool to increase transportation safety in the City.

Item 5 - File 05-1759

Department: Assessor-Recorder
Controller

Item: Ordinance amending Chapter 10 of the San Francisco Administrative Code by adding Sections 10.177-2 and 10.177-3, authorizing the Assessor to recommend rewards for information related to the detection of underpayment of Property Taxes owed to the City and County of San Francisco.

Description: The California Constitution generally limits annual increases in the assessed taxable value of real property to two percent of the property's adjusted base year value, but requires that real property be reassessed at its full cash value when that real property undergoes a change in ownership. Because of difficulties in identifying changes of ownership, particularly in commercial and industrial properties, some properties may escape reassessment at full market value upon a change in ownership. Although the proposed ordinance applies to all properties, including residential properties, according to Ms. Carol Boardman, Deputy City Attorney, the motivation for the proposed ordinance was the transfer of commercial properties which, according to Ms. Boardman, may not always be reported and therefore subject to underpayments. In contrast, the transfer of residential properties require that a deed be recorded and therefore such residential properties are not usually subject to underpayments, according to Ms. Boardman.

Under the proposed ordinance "real estate watchdogs", who provide information that lead to the detection of an underpayment of Property Taxes to the City when the underpayment results from a change in ownership, will be eligible for a reward to be paid from the General Fund if such awards are authorized by the Board of Supervisors in separate, future legislation. "Real estate watchdogs" are defined in the proposed ordinance as persons providing information leading to the

detection of an underpayment of Property Taxes owed to the City and County of San Francisco.

In order for the "real estate watchdog" to be eligible for rewards under this proposed ordinance, such persons would be required to complete an application, along with supporting documentation, to the Office of the Controller.

The Controller would be responsible for forwarding all applications and supporting documentation received from "real estate watchdogs" to the Assessor/Recorder for investigation and evaluation.

The Assessor/Recorder would be required to make a determination on each application filed and transmitted by the Controller. If the Assessor determines that a reward is warranted, the Assessor then submits such reward information to the Board of Supervisors for Board approval. According to the proposed ordinance, these rewards are entirely in the City's discretion. The amount of the reward can be up to ten percent of the amount of the underpayment of the Property Taxes collected by the City from the date of the unreported change in ownership to the date the information is provided to the City.

Under this proposed ordinance, the amount of the reward cannot be less than $5,000 or more than $500,000.

The Assessor/Recorder's authority to recommend rewards under this proposed ordinance would expire five years after the effective date of this ordinance. Not later than six months prior to the expiration of this ordinance, the Controller and the Assessor/Recorder shall recommend to the Board of Supervisors whether the Assessor/Recorder's authority to recommend rewards under this ordinance should continue for an additional period. The length of any additional periods would be subject to separate future legislative approval by the Board of Supervisors.

Under the proposed ordinance, the Assessor/Recorder would be required to submit an annual report to the Board of Supervisors that sets forth any identifiable increase in Property Tax assessments resulting from the information obtained due to the Real Estate Watchdog Program. The Controller would also be required to submit an annual report to the Board of Supervisors that sets forth any increase in Property Tax revenues resulting from the information obtained due to the Real Estate Watchdog Program.

Comments:

1. Mr. Phil Ting, Assessor, advises that the additional Assessor responsibilities that would be required under the proposed ordinance could be absorbed within the Assessor's existing budget.

2. Ms. Monique Zmuda, Deputy Controller, advises that the additional Controller responsibilities that would be required under the proposed ordinance could be absorbed within the Controller's existing budget.

3. As noted above, under the proposed ordinance, the amount of each reward cannot be less than \$5,000. According to Mr. Ting, this minimum award amount of \$5,000 was established in order to deter small and frivolous claims resulting from the proposed ordinance. Mr. Ting states that, a \$5,000 minimum reward could result in a re-assessment leading to the actual collection of \$50,000 in taxes if the reward were based on 10 percent of the underpayment of Property Taxes collected by the City. Mr. Ting advises that a minimum reward amount of \$5,000 will potentially reduce the number of claims and in turn reduce the administrative costs involved in researching and following up on potential re-assessments.

4. The Budget Analyst notes that such a minimum reward amount of \$5,000 could limit the number of reported under-assessments and thus reduce the potential increased Property Tax revenues to be realized by the City. Since all such rewards would be subject to approval by the Board of Supervisors,

the Budget Analyst recommends that the proposed ordinance be amended to eliminate the minimum reward amount of $5,000.

Recommendations:

1. In accordance with Comment Nos. 3 and 4 above, amend the proposed ordinance to eliminate the minimum reward amount of $5,000 by revising page 3, line 23 from "may not be less than five thousand dollars ($5,000.00) or more than five hundred thousand dollars ($500,000.00);" to read "may not be more than five hundred thousand dollars ($500,000.00)".

2. Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

Item 6 - File 05-1869

Departments: Port Commission (Port)

Item: Resolution approving a Lease between the Port Commission and Miller Kelly Architects, Inc., a California corporation, dba MK Think, for the lease of the Roundhouse One Building located at 1500 Sansome Street, for a term of ten years and 180 days, with one option to renew for an additional five years.

Location: 1500 Sansome Street

Purpose of Lease: The proposed resolution would authorize the City and County of San Francisco, acting by and through its Port Commission, to lease the entire space in the Roundhouse One Building, located at 1500 Sansome Street, which consists of 20,237 square feet, to be used as office space by Miller Kelly Architects, Inc., dba MK Think for a period of ten years and 180 days. Presently the subject building is vacant.

Lessor: City and County of San Francisco, acting by and through its Port Commission

Lessee: Miller Kelly Architects, Inc., dba MK Think (MK Think)

Number of Square Feet and Uses of Space: 20,237 square feet of space in the Roundhouse One Building, located at 1500 Sansome Street, to be used by the lessee as general office space. MK Think is a for-profit business that provides architectural and interior design services.

Rent Payable by MK Think to the Port: Rent of approximately $23,610 or approximately $1.17 per square foot per month, which is $283,318 or $14 per square foot annually (see Comment No. 1).

Term of Lease: The term of the proposed lease agreement is for ten years and 180 days.

Right of Renewal: One, five-year option to renew.

Maintenance and Repairs: The lessee is responsible for all general maintenance and repairs, janitorial services, and utilities, as well as gross negligence and extraordinary wear and tear.

Description: The proposed resolution would approve a proposed lease agreement between the Port Commission (Port) and Miller Kelly Architects, dba MK Think ("MK Think") for 20,237 square feet of space at 1500 Sansome Street for a period of ten years and 180 days, beginning after approval by the Board of Supervisors.

According to Mr. Jeffrey Bauer of the Port, 1500 Sansome, also known as the "Roundhouse One" Building, was last occupied five years ago. Mr. Bauer advises that the proposed lease agreement between the Port and MK Think would permit MK Think to utilize the 20,237 square feet of space at 1500 Sansome for general office use and no other purpose.

Comments: 1. Mr. Bauer advises that, under the proposed lease agreement, the Port would be paid rent of $14 annually per square foot by MK Think. In addition, the Port is requiring MK Think to construct tenant improvements estimated to cost $964,627 excluding the heating, ventilation, and air conditioning (HVAC) system cited in Comment No. 2 below, as detailed in Attachment I, provided by Mr. Bauer. MK Think would also be responsible for its own janitorial and utilities costs, which Mr. Bauer estimates to be $9.00 per square foot per year. In Attachment II, Mr. Bauer states that "The rent plus the value of the tenant improvements in addition to MK Think paying for all [janitorial and utilities] expenses is equivalent to a Gross Full Service Lease at $27.77 [annually per square foot]." Neither of these costs would be paid by MK Think to the Port since MK Think would be responsible for (a) constructing the tenant improvements and (b) paying for its own janitorial and utilities costs.

Mr. Steve Legnitto of the Real Estate Division states that the base rent of $1.17 per square foot per month for this

net lease, which does not include tenant improvements and janitorial and utilities costs, represents fair market value. Mr. Bauer further advises that the Port considers gross rent of $27.77 annually per square foot, including the requested tenant improvements and janitorial and utilities costs, to be a competitive market rent. As stated by Mr. Bauer in Attachment II, "Current Northern Waterfront office market for Full Service office [including tenant improvements and janitorial and utilities] is $21 to $27 [annually per square foot]."

2. According to Mr. Bauer, the Port will give MK Think $175,000 as a one-time rent credit for the installation of the HVAC system. As shown in Attachment III provided by Mr. Bauer, installation by MK Think of such HVAC system is estimated to cost $350,000. Mr. Bauer advises that the $175,000 rent credit will be prorated on a monthly basis and may not exceed 50 percent of the total monthly rent owed by MK Think to the Port, which as stated above is approximately $23,610. Therefore, Mr. Bauer further advises that the proposed monthly rent credit provided by the Port to MK Think for installation of the HVAC system will be an amount not to exceed $11,805, for approximately 14.8 months.

3. Mr. Bauer advises that 1500 Sansome Street is a California Historic Building and that MK Think must comply with California State Law with respect to the requirements in renovation of such a historic building.

4. Mr. Bauer advises that the Roundhouse One Building was last occupied approximately in early 2000 by Information Radio, a for-profit radio business, which paid approximately $0.08 per square foot per month, which is $1.09, or approximately 93 percent, less than the proposed monthly base rent of $1.17 per square foot. Mr. Bauer further advises that, while he did not participate in the negotiations for the Port's lease agreement with Information Radio, the rent paid by Information Radio to the Port was low because Information Radio was expected to provide $3,500,000 in tenant improvements for the Roundhouse One building, although Mr. Bauer further advises that, as of the writing of this report, the Port does

not have an estimate of the total tenant improvements that were completed by Information Radio.

Recommendation: Approve the proposed resolution.

<u>BOARD OF SUPERVISORS</u>
BUDGET ANALYST

Itemized Tenant Improvements for 1500 Sansome Street - By Division

Division	Description	Cost
1	General Conditions	$89,432
2	Site Requirements	$7,000
3	Concrete	$1,500
5	Metals	$208,000
6	Wood and Plastics	$42,000
7	Thermal & Moisture Protection	$25,000
8	Doors and Windows	$49,400
9	Finishes	$92,325
10	Specialties	$8,150
11	Equipment	$14,500
12	Furnishings	$5,500
14	Conveying Systems	$10,000
15	Mechanical	$27,500
16	Electrical	$197,000
20	Schematics	$5,350
22	Fees, Contingency, and Bonds	$181,970
	TOTAL	**$964,627**

Port of San Francisco

Date: November 22, 2005

From: Jeffrey A. Bauer, Senior Leasing Manager

To: Luke H. Klipp, Office of Budget Analyst

Re: MK Think_Roundhouse One

Background

1. In 1999, Port issued RFP for a 10-year lease.
2. Port awarded 10-year lease to IN Radio, LLC.
3. IN Radio took possession in 2000 and commenced construction of $3.SM in TIs.
4. IN Radio defaulted on the lease prior to completing TIs approximately less than 75%.
5. Port eventually terminated lease with IN Radio in 2002.
6. In 2003 Port reissued an RFP resulting in only one proposal which was rejected.
7. On 6/22/04, per Resolution No. *04-52* staff was directed to pursue potential tenants through direct negotiations.
8. Direct negotiations resulted in proposal from MK Think Roundhouse One Building located at SWL 318.
9. On October 11, 2005 the San Francisco Port of San Francisco approval the MK Think Lease by Resolution 05-66;

Assumptions:

10. MK Thinks proposal is for a Net Lease which includes $14.00 per square feet, $964,627 in tenant improvements with a value to the Port of $4.77, and pick up of all expenses at $9.00 (Electrical, gas, water, sewer, janitorial, security). The rent plus the value of the tenant improvements in addition to MK Think paying for all expenses is equivalent to a Gross Full Service Lease at $27.77.
11. MK Think will receive a one time credit for a HVAC system in the amount not to exceed $175,000. This credit amortized over the 10 year term equals $0.86 annual.
12. The Gross Full Service equivalent is $27.77 less HVAC credit amortized over the 10 year term of $0.86 equal Gross Full Service Equivalent of $26.91 annual or $2.24 monthly.
13. Current Northern Waterfront office market for Full Service office is $21 to $27 annually, or $1.75 to $2.25 monthly.

MKTHINK

the IDEAS company for the built environment

23 November, 2005

The following tabulates the costs associated with the proposed rooftop mechanical system for 1500 Sansome St (Roundhouse 1).

NOVO CONSTRUCTION

Date: 11/23/05
Estimator: M. Bank
Rev. No.: R7

Project: Round House (Rooftop)
Address: 1500 Sansome, San Francisco, CA
Size (sq. ft.): 20,326
Project No. 25121

CSI CODE	DESCRIPTION		QUANTITY	UNIT	UNIT COST	ROOFTOP	COMMENTS
Division 1	General Conditions						
01300	Project Manager	R	0.20	WK	3000	600.00	
01310	Project Superintendent	R	1.18	WK	3300	3,894.00	
01320	Project Engineer	R	0.26	WK	2400	624.00	
01510	Office Supplies	R	1.00	LS	100	100.00	
01530	Temporary Power Service	R	1.00	LS	350	350.00	
01570	Telephone Service	R	0.15	MO	350	52.50	
01700	Small Tools and Equipment	R	0.70	MO	350	245.00	
01710	Truck, Oil and Gas	R	1.00	MO	850	850.00	
01800	Progressive Clean-up	R	2.00	WK	350	700.00	
01810	Debris Boxes	R	0.50	EA	500	250.00	
Division 5	Metals						
05100	Structural Steel	R	1	LS	26250	26,250.00	Steel Supports for Rooftop Equipment
Division 6	Wood and Plastics						
06100	Rough Carpentry	R	1	LS	2600	2,600.00	Rooftop Carpentry
Division 7	Thermal & Moisture Protection						
07500	Membrane Roofing	R	1	LS	3400	3,400.00	
Division 15	Mechanical						
15400	Plumbing	R	1	LS	6250	6,250.00	Condensate and Make-up Water
15400	Plumbing	R	1	AL	10000	10,000.00	Allowance to bring gas up to boiler
15700	HVAC	R	1	LS	197560	197,560.00	Rooftop
Division 16	Electrical						
16100	Electrical	R	1	LS	11245	11,245.00	Power for rooftop equipment
	Subtotal					$264,970.50	
22100	Building Permit Fees	R	$264.971		0.02	5,299.41	2% Allowance (Assumes the Port will reduce their normal fee)
22200	Utility Fees	R	1	AL	20000	20,000.00	Allowance for Gas Service (We have not been able to verify with PG&E whether gas has been brought to the building)
22300	Performance Bond	R	397456		0.02	7,949.12	Bond for 150% of value
22500	General Liability Insurance Fee	R	$264.971		0.01	2,649.71	1% of Cost
22600	Contingency	R	$300.909		0.1	30,086.87	10% Contingency
22700	General Contractors Fee	R	$330.956		0.035	11,583.45	3.5% Fee
						342,539.05	

An additional $7,460.95 related to soft costs associated with architectural and structural coordination and documentation is included to bring the total estimated cost to $350,000

Respectfully,

Steven Kellley
Principal , MKThink

Pier 9, The Emborcadero, Suite 111 San Francisco, CA 94111
415 402 0888 mkthink.com

Item 8 - File 05-0916

Note: This item was continued by the Budget and Finance Committee at its meeting of October 13, 2005.

Departments: Public Utilities Commission (PUC)
Department of the Environment (ENV)
Local Agency Formation Commission (LAFCO)

Item: A resolution submitting LAFCO Policy and Program Recommendations for a Community Choice Aggregation (CCA) Program and approving a CCA Implementation Plan.

Background: On May 11, 2004 the Board of Supervisors approved an ordinance establishing a Community Choice Aggregation (CCA) Program to purchase electrical power directly for San Francisco residents and businesses and to accelerate renewable energy, conservation, and energy efficiency programs (Ordinance 0086-04). This ordinance required the PUC and ENV to jointly prepare and submit a CCA Implementation Plan (IP) to the Local Agency Formation Commission (LAFCO). AB 117, the State legislation enabling municipalities in California to become community choice aggregators, outlines what must be included in such an IP for submittal to the California Public Utilities Commission (California PUC). The California PUC then reviews and certifies the IP, thus allowing the City to begin purchasing power on behalf of its residents and businesses.

The PUC and ENV submitted a draft IP to LAFCO on April 27, 2005, as required by Ordinance 0086-04, and Local Power, a non-profit organization, submitted a draft IP to LAFCO in April of 2005. On May 13, 2005, LAFCO accepted and transmitted Local Power's draft IP, as amended by LAFCO, to the Board of Supervisors (File 05-0916). Following the transmittal to the Board of Supervisors of Local Power's draft IP, LAFCO held a series of hearings during the months of June, July, and August of 2005 to resolve the differences between Local Power's draft IP and the PUC/ENV draft IP. The product of these hearings was a resolution submitting LAFCO's policy and program recommendations for the City's CCA Program to the Board of Supervisors (File 05-1417).

On September 15, 2005 the Budget and Finance Committee heard both of these CCA resolutions (Files 05-0916 and 05-1417). The Committee requested that these two files be merged into the proposed subject resolution (see Comments Nos. 1 and 2).

One-Time Start-Up Costs:

As further described below, the total one-time start-up costs for the implementation of a CCA Program are currently estimated to be between $8,871,316 and $12,100,948. This amount represents the estimated costs to be incurred by the City prior to revenues from power sales being realized by the City. Potential sources of funds to pay for these proposed one-time start-up costs are described in a later section of this report.

The Budget Analyst notes that there are a number of fundamental issues related to the CCA Program's governance and functions that have yet to be decided. These issues may have a significant impact on the budget for CCA implementation, and are described further in Comments Nos. 1, 2 and 3. Therefore, the Budget Analyst has included recommendations at the end of this report that the Board of Supervisors amend the subject resolution in order to clarify these issues.

At the September 15, 2005 Budget and Finance Committee meeting, Local Power submitted a budget containing the estimated one-time start-up costs to implement its draft IP. Attachment VI, submitted by Mr. Paul Fenn of Local Power, summarizes this budget. Table 1 below, compiled by the Budget Analyst and based on information in Attachment VI, shows that the one-time, start-up costs of the CCA Program implementation would be $12,100,948.[1]

[1] Note that this total budget figure and the figures in Table 1 differ somewhat from Local Power's proposed program budget presented in the September 15, 2005 Budget and Finance Committee. The Budget Analyst requested information from Mr. Fenn supporting Local Power's proposed program budget that was presented on September 15, 2005. When such information was submitted to the Budget Analyst on Friday, September 23, 2005, the budgeted amounts differed somewhat from the data previously presented to the Budget and Finance Committee.

Table 1: Summary of Local Power's Proposed One-Time Start-Up Budget for the CCA Program

Phase	Work to be Done by Program Director (see Comment No. 1)	Work to be Done by PUC *	Total Budget
Start-Up	$ 508,536	$ 207,788	$ 716,324
Program Development	1,653,372	1,976,016	3,629,388
Procurement	2,370,312	1,122,377	3,492,689
Basic Service Implementation	1,628,160	2,634,387	4,262,547
Total	**$6,160,380**	**$ 5,940,568**	**$12,100,948**

* Note that this is Local Power's proposed budget for the work to be done by the PUC, and the above figures have not been generated or analyzed by the PUC. The Budget Analyst also notes that the annual salaries used to generate the budget amounts for PUC staff work are based on the City's Annual Salary Ordinance. According to Mr. Fenn, the compensation rates for the work done by the Program Director are based on the current market rates for comparable work.

The Budget Analyst also requested the PUC to provide a detailed CCA implementation budget based upon the policy and program recommendations contained in the subject resolution. The following Table 2, compiled by the Budget Analyst, based on information provided by PUC Power Enterprise staff, summarizes the PUC's preliminary proposed one-time start-up budget for a CCA Program.

Table 2: Summary of PUC's Preliminary One-Time Start-Up Budget for the CCA Program (Based on LAFCO Policy and Program Recommendations)

Activity	Estimated Cost
Implementation Plan Finalization*	$ 240,000
Customer Data Updates*	10,000
Request for Proposals*	150,000
Customer Call Center	250,000
PG&E Service Fees**	838,508
Communications Budget	4,350,000
Upgrades to Customer Care Center Facilities	750,000
Subtotal	$6,588,508
Minimum Start-Up Staffing ***	2,282,808
Total at 50% Staffing Cost	**$8,871,316**
Maximum Start-Up Staffing ***	3,424,213
Total at 75% Staffing Cost	**$10,012,721**

*These items are all currently funded in FY 2005-2006, for a total of $400,000 in professional services contracts.
** According to Mr. Joe Como from the City Attorney's Office, this amount may change as a result of forthcoming decisions to be made by the California PUC (docket R.03-10-003).
*** The PUC's proposed program budget assumes hiring 27 FTEs for the implementation of the CCA Program, the majority of which will be required prior to full implementation in the "staffing up" period. However, PUC Power Enterprise staff state that because it is still too early to precisely calculate how much in advance of full implementation each FTE will be needed and because of the many unknowns related to the CCA implementation timeline, the PUC provided two preliminary start-up staffing estimates, ranging between $2,282,808 to $3,424,213. PUC Power Enterprise staff advise that the second estimate includes staffing for energy efficiency and marketing efforts. Attachment V provides a fuller discussion of the start-up costs for staffing, including the assumptions behind them.

As shown in Table 2 above, the total estimated costs for CCA implementation, as proposed by the PUC, would be between $8,871,316 and $10,012,721. Also as noted in the footnote to Table 2, the PUC's proposed budget includes $400,000 in funds that were previously appropriated by the PUC for CCA in FY 2005-2006. Therefore, the additional new funding required to implement the PUC's proposed program budget is between $8,471,316 and $9,612,721.

PUC Power Enterprise staff provided the following supporting documentation related to the PUC's preliminary proposed CCA Program budget:

(a) Attachment I includes a summary of estimated one-time activities and costs (excluding staffing);
(b) Attachment II includes start-up costs (including start-up staffing costs and customer call center upgrade costs);
(c) Attachment III includes a more detailed estimate of the communications budget included in Attachment I;
(d) Attachment IV includes the PUC's FY 2005-2006 budget and expenditure plan for CCA; and,
(e) Attachment V includes an accompanying memo further describing Attachments I, II , III and IV.

Attachment V states that the PUC has assumed funding for energy efficiency marketing efforts which will be obtained externally[2] of the CCA Program's budget, and therefore, these costs are not included in the PUC's proposed budget. According to Attachment V, if the final IP requires significant energy efficiency marketing efforts directed at individual customers without a source of external funding, it would result in start-up staffing costs significantly higher than those presented in Table 2 above. The PUC's table at the bottom of Attachment II estimates these energy efficiency marketing costs to be $4,707,614 on an annual basis, representing 29 FTEs. The Budget Analyst notes that this is a significant omission from the PUC's proposed CCA Program budget. These energy efficiency marketing costs should be included in the PUC's total proposed CCA Program budget if the PUC believes that these functions would be necessary.

The Budget Analyst notes that the PUC's proposed budget also does not include consideration for costs associated with office space for new PUC staff. In response to Budget Analyst inquiries regarding benchmarks or analyses for the PUC's staffing allocations, PUC Power Enterprise staff advise that the

[2] Attachment V states that a potential external source of funding for energy efficiency marketing efforts would be from "Public Goods Surcharge" monies currently paid by San Francisco ratepayers to PG&E.

PUC's consultant, the Structure Group, provided staffing recommendations, based on similar work which the consultant has performed for electricity service providers in other parts of the country.

Comparing the PUC and Local Power Proposed One-Time Start-Up Costs:

The proposed budgets from Local Power and the PUC are relatively similar in magnitude. Whereas Local Power's proposed CCA program budget is $12,100,948, the PUC's preliminary proposed budget ranges between $8,871,316 and $10,012,721 (not including the value of existing PUC staff working on CCA implementation during FY 2005-2006).

The Budget Analyst notes that the budgets proposed by Local Power and PUC have significant differences. These two reported budgets assume different governance structures, have different staffing plans, utilize different timelines, and allocate different amounts of time and resources to the program functions (see Comments Nos. 1 and 2).

Program Activities - The Budget Analyst notes that some of the tasks/activities are only found in one of the two proposed budgets, and each budget bundles and names the implementation tasks and program activities differently. As a result, a comparison of these two budgets is exceedingly problematic.

The following Table 3, compiled by the Budget Analyst, from data provided by Mr. Fenn, and from Attachments I and II, summarizes three of the significant differences in estimated costs between the Local Power and PUC budgets for the performance of comparable program activities:

Table 3: Examples of Differences Between Budgeted Amounts for the Performance of CCA Program Activities

Start-Up / One-Time Activity	PUC's Proposed Budget	Local Power's Proposed Budget*
Communications and Marketing	$4,350,000	$2,126,320
IP Finalization	240,000	153,756
RFI/RFQ/RFP Preparation	150,000	1,318,752

*As previously noted, the Local Power's proposed CCA Program budget divides the total budgeted amount, which is shown in Table 1, into a budget for the PUC and a budget for the Program Director. These subtotals are not reflected in the Table 3 for simplicity's sake.

Notably, as shown in Table 3, and according to Mr. Fenn, whereas Local Power's proposed budget calls for $2,126,320 to be expended for communications/opt out notifications[3] and marketing, the PUC's proposed communications budget provides for $4,350,000 (see Table 2). According to PUC Communications staff, the communications budget for CCA needs $4,350,000 because the financial success of the CCA Program will rely a great deal on clearly communicating to customers the details of the CCA Program, so as to decrease customers opting-out of the CCA Program based on lack of information about it. Attachment III provides more detail related to the PUC's proposed communications budget.

PUC Power Enterprise staff advise that some of the activities listed in the Local Power proposed program budget details that are not explicitly broken down in the PUC's proposed budget details (such as the development of financial management systems and the development, as needed, of a low income assistance program) are nevertheless extremely useful and should be incorporated into the final CCA Program IP.

__Staffing__ - Attachment VII, compiled by the Budget Analyst with information provided by Mr. Fenn, details Local Power's proposed preliminary start-up staffing plan for CCA Program. As noted above, Attachment II

[3] According to State law, a CCA must provide all potential customers four notices providing them the opportunity to "opt out" of getting their electricity from the City's CCA.

shows the PUC's proposed preliminary start-up staffing for the CCA Program. Attachment II shows that the PUC's proposed budget includes 27 staff positions for CCA Program start-up, whereas Attachment VII shows that Local Power's budget includes 44 staff positions, 23 in the Program Director and 21 in the PUC. The Budget Analyst notes, however, that the 23 positions that are part of the Program Director budget will not be City staff positions. Therefore, PUC's preliminary budget includes 17 fewer (44 less 27) total staff positions and 6 more (27 less 21) PUC staff positions than Local Power's proposed budget. As previously noted, the PUC's proposed staffing plan does not include the 29 positions that would be potentially hired for energy efficiency marketing purposes.

In addition to the significant differences between the staffing numbers of the budgets proposed by Local Power and the PUC, there are significant differences between the functions these staff would perform. The PUC's proposed staffing plan includes staff that would be in charge of the customer service and call center functions. Local Power's draft IP and proposed staffing plan does not include these functions, which are assumed to be contracted out.

In Attachment X, a memorandum submitted by Mr. Fenn in response to the October 13, 2005 Budget Analyst report for the subject resolution, Mr. Fenn disputes this statement and maintains that the Local Power draft IP and proposed budget do include customer service and call center staff. However, the Budget Analyst finds that the Local Power staffing for these functions includes only two positions (one Marketing/Communications Manager and one Marketing/Communications Specialist) budgeted to work for a full-time amount equivalent to 12 weeks. The Budget Analyst notes that this level of staffing can not be reasonably considered an in-house customer service and call center like the one being proposed by the PUC. Local Power's proposed budget is significantly different from the PUC's proposed budget for these functions, which includes $750,000 for upgrades to PUC's existing customer call center facilities and a budget for staff including 9 customer care representatives, 1 customer

service manager, 2 customer care center supervisors, 1 opt-out supervisor, and 3 opt-out clerks, as shown in Attachment II.

PUC Power Enterprise staff state that the customer service and call center function should be performed in an in-house civil service capacity because the PUC believes that the "public face" of CCA and a sense of City accountability are important to the success of the CCA Program. PUC Power Enterprise staff explained that this sense of public accountability is initially the responsibility of the customer service function during the marketing and opt-out phase of implementation, and, therefore, the PUC plans to incorporate the customer service and call center functions in-house. However, the PUC Power Enterprise staff also stated that they are preparing for any unforeseen needs related to customer care and call center functions by including a contingency of $250,000 in the proposed CCA program budget for such purposes, which could be used for professional services contracts to augment PUC staffing.

Implementation Timeline - In addition to having very different budget descriptions, activities, and staffing plans, the two proposed program budgets also employ significantly different assumptions about the implementation schedule and order of implementation activities. The Budget Analyst requested the PUC to provide a CCA Program implementation schedule based upon the policy and program recommendations contained in the subject resolution. Attachment VIII, provided by PUC Power Enterprise staff, is the PUC's proposed timeline for the implementation of CCA. As shown in Attachment VIII, the PUC's proposed implementation timeline begins in October of 2005 and ending with service provision in June to August of 2007. The PUC Power Enterprise staff advises that delays, such as delays in a decision regarding the CCA Program's governance structure and funding mechanism, will create commensurate delays in its timeline.

Local Power's proposed program budget includes a timeline for the implementation of the CCA Program, which is included as Attachment IX to this report. As

shown in Attachment IX, the Local Power Program Budget implementation timeline is broken down into four phases, beginning in November of 2005 and ending with service provision in April of 2007.

One notable difference in the two timelines is the timing of the Request for Information (RFI) and Request for Qualifications (RFQ) (see Comment No. 4 below). According to PUC Power Enterprise staff, the PUC wishes to initiate the RFI/RFQ process as soon as possible because many unknowns about the structure and viability of the CCA Program will likely be answered through responses the PUC receives to the RFI/RFQ. The PUC's proposed timeline in Attachment VIII circulates the RFI/RFQ to energy suppliers in December of 2005. The Local Power implementation timeline has the RFI/RFQ being issued in late March of 2006.

Costs in FY 2005-2006 - According to the PUC's proposed budget, the City will not incur any additional costs in the current fiscal year by approving the subject resolution. Attachment IV, submitted by PUC Power Enterprise staff, shows the PUC's FY 2005-2006 budget for CCA-related activities, including 3.63 FTEs and $400,000 in professional services contracts. According to Attachment IV, $1,315,668 is budgeted from the net operating revenues of the Hetch Hetchy Enterprise Fund for CCA-related activities in FY 2005-2006. Attachment IV also shows the PUC has expended $228,917 to date of the $1,315,668 total. The same Attachment provides a PUC expenditure plan for the remaining $1,086,751 ($255,417 plus $453,917 plus $377,417). PUC Power Enterprise staff advise that the PUC does not anticipate needing any supplemental funding in FY 2005-2006 to continue the PUC's proposed progress toward CCA implementation. However, the Budget Analyst questions whether the PUC has the staffing capacity to complete all of its proposed FY 2005-2006 activities with its current level of staffing, given that the PUC proposes staffing up to 27 positions (or 56 positions, including the 29 energy efficiency marketing positions noted above which have been omitted from the PUC proposed CCA Program budget) in FY 2006-2007 and yet currently only has 3.63 FTEs budgeted.

Although the approval of the proposed subject resolution does not mandate the expenditure of additional funding in the current fiscal year, if the final IP utilizes Local Power's proposed program budget, governance structure, and implementation timeline (see Comments Nos. 1 and 2), then additional funding will be needed in the current fiscal year. Local Power's proposed program budget has the City completing the Start-Up Phase, Program Development Phase and the RFQ/RFI and RFP portions of the Procurement Phase by approximately the end of FY 2005-2006, at a total cost of approximately $5,570,915.

As previously mentioned and as shown in Attachment IV, the PUC has an unexpended FY 2005-2006 staffing and professional services budget of $1,086,751 ($1,315,668 less $228,917) as of the end of the first quarter of the Fiscal Year, or as of October 1, 2005. The Budget Analyst notes that, if the PUC were to use all of the remaining FY 2005-2006 budgeted CCA amount for implementing Local Power's proposed program budget according to the timeline specified, a supplemental appropriation of $4,484,164 ($5,570,915 less $1,086,751) would be required in FY 2005-2006 to implement the Local Power draft IP.

Costs in FY 2006-2007 and Beyond - The Budget Analyst notes that, in both the Local Power and PUC budgets described above, significant new funds will be required in FY 2006-2007 to cover the start-up and one-time costs of implementing the CCA Program. Local Power's proposed implementation timeline ends in April of 2007, whereas the PUC timeline ends in June to August of 2007, as shown in Attachments VIII and IX. Therefore, the PUC's proposed timeline, and not Local Power's, would have one-time start-up expenses incurring in FY 2007-2008 as well as in FY 2006-2007.

The following Table 4 summarizes the new funding that would be required to pay for the anticipated one-time start-up costs in the two proposed budgets for the CCA Program.

Table 4: New Funds Required for One-Time Start-Up Costs

	PUC's Proposed Budget	Local Power's Proposed Budget
FY 2005-2006	$0 *	$4,484,164 **
Some of activities paid for by proposed budget	IP finalization, circulation of RFI/RFQ and RFP (currently budgeted in FY 2005-2006)	IP finalization, develop program elements, circulation of RFI/RFQ and RFP, development of conservation measures
FY 2006-2007 and beyond	$8,471,316 to $9,612,721	$6,530,033
Some of activities paid for by proposed budget	Evaluation of bids, award of contract, communications and marketing, opt-out processing	Evaluation of bids, award of contract, communications and marketing, opt-out processing, financial management system, Proposition H bond issuance

* Note that the PUC's budgeted expenses for FY 2005-2006 are not included in Table 4 because these funds have been previously appropriated for FY 2005-2006, and, as previously noted, the PUC claims that it will not require any additional funding in FY 2005-2006 to continue its proposed start-up CCA activities in FY 2005-2006.
** Assumes the inclusion of unexpended PUC FY 2005-2006 staffing and professional services budget of $1,086,751.

Funding Sources For One-Time Start-Up Costs:

The Budget Analyst requested that the PUC identify potential funding sources which the City could utilize to pay for the one-time start-up costs of a CCA Program. According to PUC Power Enterprise staff, and as further explained in Attachment V, the PUC foresees three potential funding mechanisms for the one-time and start-up costs for the PUC's proposed CCA Program. They are:

(a) **Hetch Hetchy Enterprise Net Operating Revenues** – The existing FY 2005-2006 PUC budget for CCA work is paid for with Hetch Hetchy Power Enterprise Net Operating Revenues. These revenues are derived from the sale of electricity to wholesale customers and City departments minus expenditures for the provision of electric services. The total FY 2005-2006 operating budget for the Hetch Hetchy Power Enterprise is $109,734,558.

If the Board of Supervisors chooses to use that funding source, the Board could make arrangements

to repay the amount taken from the Hetch Hetchy Enterprise Fund using net CCA operating revenues to be realized from surcharges charged to ratepayers. In such a scenario, the City could amortize the payments over several years to soften the impact on ratepayers. However, the Budget Analyst notes that, as of the writing of this report, it is uncertain as to whether the revenues realized from electricity rates will be sufficient to repay Hetch Hetchy.

The Budget Analyst notes that the Board of Supervisors does not have sole jurisdiction over the Hetch Hetchy Power Enterprise Net Operating Revenues, but, rather, the PUC must first approve the use of this funding source during its annual budget process. Therefore, it is unclear if this funding source would be made available by the PUC.

(b) **General Fund Revenues** – If the Board of Supervisors wishes to fund some of the CCA Program one-time start-up costs in FY 2005-2006, the Board could appropriate revenues from the FY 2005-2006 General Fund Reserve, which was budgeted at $24,260,750.

If the Board of Supervisors chooses to appropriate General Fund Reserve monies, as an advance to pay for one-time start-up costs, the Board could make arrangements to repay the amount advanced by the General Fund using future potential CCA net operating revenues from surcharges charged to ratepayers. In such a scenario, the City could amortize the payments over several years to soften the impact on ratepayers. However, the Budget Analyst notes that, as of the writing of this report, it is uncertain as to whether the revenues realized from electricity rates will be sufficient to repay the General Fund.

(c) **Loan from Wholesale Electricity Supplier** – This funding source is hypothetical and depends on the responses the City receives from the RFI/RFQ and RFP processes (see Comment No. 4). If this funding source does turn out to be available, the City could

borrow the funds from the electricity service provider necessary to pay for some or all of its start-up and one-time costs. The Budget Analyst notes, however, that the availability of this funding mechanism will not be known until a later time because such information would be obtained through the RFI/RFQ and RFP processes (see Comment No. 4). Further, according to both proposed timelines of both Local Power and the PUC, some of the start-up and one-time costs would be incurred prior to when responses from the RFP would be received by the City and prior to when a contract would be awarded.

(d) **Proposition H Revenue Bonds** – In 2001 San Francisco voters approved Proposition H, amending the City Charter to give the Board of Supervisors authority to issue revenue bonds to develop renewable energy facilities and to implement conservation in both the public and private sectors. The subject resolution calls for the use of this bond fund mechanism to invest in large-scale wind or other cost effective renewable energy generation.

According to Ms. Gloria Young, Executive Officer of LAFCO, at the September 9, 2005 LAFCO meeting, LAFCO voted to retain outside legal counsel to provide additional advice regarding, among other things, the use of Proposition H bond financing, as well as the issue of CCA governance (see Comment No. 1). According to Ms. Young, this contract for outside legal counsel, at a cost of $25,000, was executed with Nixon Peabody LLP, and the November 10, 2005 report summarizing their findings was presented at the LAFCO meeting of November 18, 2005. LAFCO voted to accept the report at this meeting.

Although not described by the PUC as a potential funding source for the one-time start-up costs of a CCA Program, the Budget Analyst notes that Nixon Peabody LLP concluded in its November 10, 2005 report to LAFCO that the City could use funds from Proposition H bonds to pay for the developmental costs of CCA such as "preparation of requests for

proposals, environmental studies, and permitting, accounting and legal expenses, in addition to 'hard costs' of construction."

Ongoing Costs:

Regarding ongoing costs (in addition to the one-time start-up costs discussed above), Local Power did not provide a budget for the ongoing costs for the CCA Program. The Budget Analyst calculates, using information from Attachment II, that the preliminary PUC estimates for the ongoing PUC staffing costs for a CCA Program (including overhead) would be $5,596,946 annually. As noted above, this figure does not include the estimated $4,707,614 in annual costs for energy efficiency marketing efforts, which have been omitted from the PUC proposed CCA Program budget.

However, it should be noted that this preliminary PUC staffing plan and budget for ongoing CCA operations represents a normal operating year and does not provide for any unexpected contingency needs or funding to create necessary reserves. Also, as previously mentioned, the PUC's proposed budget does not include detailed consideration for costs associated with office space for new PUC staff. Finally, it should be noted that this staffing/budget is preliminary in nature and has not been reviewed by the various PUC organizational units that would be involved in CCA Program staffing.

Funding Source For Ongoing Costs:

Ongoing costs for the CCA Program would be included in the rates to be paid by CCA customers comprised of San Francisco residents and businesses. The subject resolution states that the RFP specifications should provide that the City has the final authority to establish the actual electricity rates to be charged to CCA customers, via an Electricity Rate Fairness Board or similar entity. However, the subject resolution also includes the recommendation made in the Local Power draft IP, which establishes electricity rates based upon the rate structure recommended by the bidder chosen through the RFP process to provide the electrical power to CCA customers. This is one of the various internal inconsistencies in the subject resolution which the

Budget Analyst is recommending that the Board of Supervisors address (see Comment No. 2).

Long-Term Fiscal Viability and Rates:

Although the estimated reported one-time start-up costs of up to $12,100,948 for CCA implementation are significant, they are small relative to the estimated ongoing revenues that are projected to be realized by implementing a CCA Program. According to PUC Power Enterprise staff, the CCA Program revenues are expected to exceed $200,000,000 a year, an amount almost as much as the combined sewer and water revenues from City residents and businesses.

The financial viability of the CCA Program is still largely unknown and depends upon a number of factors (see Comment No. 6 "Major Variables Affecting Long-Term Fiscal Impact and Customer Rates"). Under some scenarios studied by Altos, a consultant retained by the PUC at a cost of approximately $120,000, the City's proposed CCA Program "has a reasonable prospect of offering customers a combination of reasonable priced, cleaner energy, and lower fossil fuel rate risk to its citizens." In the best case scenario, the CCA offers the prospect of savings of $700 million over 30 years, although there would be projected deficits from 2006 through 2008. "Savings," according to PUC Power Enterprise staff, is the decrease in the CCA's costs of supplying electricity as compared to PG&E's costs. PUC Power Enterprise staff advise that a portion of these savings will likely be used in the provision of an incentive package to the electricity service provider.

According to PUC Power Enterprise staff, a crucial assumption regarding the savings mentioned above is that the City must contract with a supplier having consistently superior abilities at purchasing and trading electricity on the market. However, according to the PUC/ENV draft IP, "In all cases, in the early years through 2008 or 2009, it is reasonably likely that CCA customer bills would exceed those of equivalent Pacific Gas and Electric (PG&E) bills. During the period of 2009-2010, it is estimated that CCA customer bills would show small savings over PG&E, and after 2010 CCA

customer bills could be consistently lower due both to the performance of the City's supplier and the City's investment in a commercially available renewable power project – which at this juncture appears to be a wind project."

According to PUC Power Enterprise staff, the PUC has recently committed an additional $26,500 in FY 2005-2006 for the extension of an existing professional services contract with Altos, the consultant who prepared the report discussed above, which will purportedly further improve the modeling capability of the short- and long-term financial analyses.

Comments:

1. Unclear Governance Structure

According to Mr. Joe Como of the City Attorney's Office, the City Attorney's Office interprets the City's Charter to mean that "the PUC has exclusive jurisdiction over the implementation of the CCA Program because it is an energy supply and utility of the City." The subject resolution acknowledges that legal opinion. However, the proposed resolution also simultaneously recommends the Local Power draft IP, which utilizes a governance structure of a "Program Director," which would initially serve as the lead entity implementing the CCA Program. According to the Local Power IP, the Program Director would lie outside of the PUC and would be directly accountable to the Board of Supervisors, not the PUC, and could be an outside contractor. Mr. Fenn advises that the work of the Program Director would be most work-intensive in the first two years, and would phase out after the duration of approximately five years.

The Budget Analyst notes that the proposed resolution is not clear about whether the PUC or a combination of the PUC and the Program Director has the authority to implement CCA. Mr. Como advises that this is one of the most significant issues with the subject resolution. This point is relevant to the Budget Analyst's fiscal analysis of the proposed CCA Program budgets because: (1) there are two competing budgets under consideration that have been submitted on behalf of the subject resolution that rely on significantly different organizational and staffing structures, and (2) the potential sources of funding may

differ under different governance scenarios. For example, if the CCA Program is started up using Hetch Hetchy funds, it is unclear if the Program Director, that is under the authority of the Board of Supervisors, and not accountable to the PUC, can obtain authorization to utilize such funds.

As previously noted, LAFCO voted to retain outside legal counsel to provide additional advice regarding, among other things, the issue of CCA governance as well as the use of Proposition H bond financing. According to Ms. Young, this contract for outside legal counsel, at a cost of $25,000, was executed with Nixon Peabody LLP, and their report of November 10, 2005 was presented at the LAFCO meeting of November 18, 2005. LAFCO voted to accept the report at this meeting.

Regarding CCA jurisdiction and implementation structure, Nixon Peabody LLP concluded:

"Only the Board of Supervisors can elect CCA for the City and County of San Francisco ("CCSF"). That authority includes the power to condition the method of implementation. Article VIIIB of the City Charter does not transfer that authority to SFPUC. It is unclear whether a court would conclude that Article VIIIB requires the Board of Supervisors to designate SFPUC to implement CCA and whether the SFPUC could, under Article VIIIB of the City Charter, decline to implement a CCA Implementation Plan adopted by the Board of Supervisors."

The Nixon Peabody LLP report further concluded:

"Based on the SFPUC's analysis of tasks and of CCSF's internal resources... of its Draft Implementation Plan, and taking into account the need for a highly focused and effective start-up commitment, CCSF would be best served by an organizational structure which initially contracts for almost all functions, retaining a limited number of discrete functions, subject to vigorous policy level supervision. Success also requires that CCSF act as a cohesive whole and give serious consideration to a policy-level board of control integrating the objectives of

the Board of Supervisors, SFPUC, and the executive branch, or some other structure to ensure effective communication from and to policymakers."

The Budget Analyst recommends that the Board of Supervisors resolve this central issue of governance as soon as possible, and certainly prior to the submission of a final IP to the California PUC. The Budget Analyst notes that the Board of Supervisors could choose among a number of courses of action at this juncture. It could: (a) follow the City Attorney's opinion that the PUC has exclusive jurisdiction over the implementation of the CCA, (b) follow the legal opinion on this matter provided to LAFCO by Nixon Peabody LLP at the LAFCO meeting on November 18, 2005, or (c) decide, as a policy matter, how the CCA Program should be governed. This decision should be clearly reflected in the subject resolution (see Recommendation No. 1).

2. Inconsistencies Between the Subject Resolution's Recommended IP and the Subject Resolution's Policy and Program Recommendations

The Budget Analyst notes that the subject resolution both (a) recommends a specific IP submitted by Local Power and (b) makes general policy and program recommendations that are not consistent with the recommended Local Power IP. The Budget Analyst asked the City Attorney's Office to explain this contradiction. In response, Mr. Como stated: "The resolution recommends that the Board of Supervisors adopt the Local Power draft IP and submit it to the California PUC for approval. However, at the same time, the resolution makes program changes that are not in the Local Power draft IP."

The following Table 5, compiled by the Budget Analyst with input from Mr. Como, summarizes some, but not necessarily all, of the key differences between the Local Power draft IP and the subject resolution's policy and program recommendations.

Table 5: Differences Between the Local Power Draft IP and the Subject Resolution's Policy and Program Recommendations

Policy or Program Component	Local Power Draft IP	Subject Resolution's LAFCO Policy and Program Recommendations
Jurisdiction (see "Unclear Governance Structure" above)	Program jointly run by non-City Program Director and PUC; accountable to Board of Supervisors	Unclear
City Staffing	Majority of program staffing done by outside contractor	City staffs, on an internal basis, energy efficiency and public interface functions
Rate-Setting	Rates are decided upon through contract with electricity service provider and must "meet or beat" PG&E rates; no public process	Rate fairness board would be used that would "meet or beat" existing level of public due process
Number of Contractors	One	Does not limit
Amount of Renewables *	360 Megawatts (MW)	Goal of 360 MW, but not mandatory; states that the amount would depend on the economics
Types of Renewables	Focus on "distributed" renewable generation (such as solar panels on City rooftops)	Mentions both distributed renewable generation and larger-scale renewable projects, such as wind farm
City Contracting Requirements Incorporated (i.e. MBE, WBE, etc.)	No	Yes
Job Creation in San Francisco Incorporated	No	Yes

* "Renewables" refers to energy obtained through renewable sources, such as energy generated by wind or solar.

Because there are a significant number of points of difference between the Local Power draft IP and the subject resolution's LAFCO policy and program recommendations, the Budget Analyst recommends that the Board of Supervisors amend the subject resolution to clarify its opinions with regard to the differences between the Local Power draft IP and the subject resolution's policy and program recommendations (see Recommendation No. 2).

3. Unclear Next Steps

The Budget Analyst notes that, although (a) the PUC and ENV submitted a draft IP, as required by Ordinance

0086-04, and (b) the subject resolution makes frequent mention of the PUC/ENV draft IP, the PUC/ENV draft IP is currently not being considered under the proposed subject resolution. The Budget Analyst requested the City Attorney's Office to explain this situation, and, in response, Mr. Como stated: "Ordinance 0086-04 called for PUC and ENV to submit an IP for review and approval by the Board of Supervisors, but the subject resolution is silent on what happens to the draft IP submitted by PUC/ENV."

Moreover, the Budget Analyst notes that there is confusion among City departments that are working on the CCA Program as to the next step in the process if the subject resolution is approved by the Board of Supervisors. The Budget Analyst requested the opinion of the City Attorney regarding this question. Mr. Como, in response, stated that "The subject resolution is silent on how the resolution's recommendations get incorporated into a final IP or who does them (PUC/ENV or Local Power).... State law requires the Board of Supervisors to approve the IP that goes to the CPUC, so I believe that the Board of Supervisors would have to see the final IP after all of the policy guidance from the resolution is incorporated into the IP."

Therefore, the Budget Analyst recommends that the subject resolution be amended by the Board of Supervisors to clarify the final disposition of the draft implementation plan that was submitted by PUC/ENV, and to clarify how and which of LAFCO's policy and program recommendations are to be incorporated into the final IP (see Recommendations Nos. 3 and 4).

4. RFI/RFQ

The subject resolution states that a Request for Information (RFI) or a Request for Qualification (RFQ) process may be undertaken prior to preparation of the RFP in order to determine the interest and variety of potential bidders on the RFP to serve as the energy supplier. According to PUC Power Enterprise staff, an RFI/RFQ should provide the responses from potential electricity providers and others that will assist in evaluating CCA viability. PUC Power Enterprise staff stated that the PUC intends to issue an RFI/RFQ as

early as November of 2005. PUC Power Enterprise staff advise that it is highly preferable for the RFI/RFQ process to be undertaken as soon as possible, given the need to receive and analyze responses in the third quarter of FY 2005-2006, so that the information can be incorporated into the City's and/or the PUC's FY 2006-2007 budgets. Local Power's program budget proposes that an RFI/RFQ process take place in April of 2006, primarily under the direction of the Program Director, not the PUC (see Comment No. 1 "Unclear Governance" above).

The Budget Analyst recommends that the subject resolution be amended to request the City, either the PUC or Program Director, as decided by the Board of Supervisors, to undertake a RFI/RFQ process as soon as possible, preferably prior to the end of the second quarter of FY 2005-2006, so that the information gained can be used to plan for the FY 2006-2007 budget (see Recommendation No. 5).

5. Future Actions for the Board of Supervisors
According to Mr. Como, by approving the proposed resolution, the Board of Supervisors recommends the submission of the Local Power draft IP to the California PUC and recommends LAFCO's program and policy recommendations. Mr. Como states that the subject proposed resolution does not provide a mechanism for the LAFCO policy and program recommendations to be incorporated into the Local Power draft IP. Should the Board of Supervisors approve the subject resolution and submit a final IP to the California PUC for certification, the City is still not obligated to implement the IP. Mr. Como advises that the Board of Supervisors must hold a public hearing on the State-certified IP and approve a separate ordinance to implement such an IP. In accordance with Charter section 9.118, the Board of Supervisors will have to approve such contracts with a term of greater than 10 years or with expenditures greater than $10,000,000. This may include several of the potential contracts that will have to be awarded to support the CCA Program.

Some of the next stages at which the Board of Supervisors will be required to approve CCA legislation include: the approval of the final RFP, the approval of the contract(s) with the electricity service provider(s), and the appropriation of CCA Program funds by the Board of Supervisors. As noted above, the contract(s) with the electricity service provider(s) may be subject to Board of Supervisors approval.

According to Mr. Como, approval of the subject resolution does not necessarily pose any increased liability to the City at present because the City can withdraw from CCA implementation at any time up until a contract is signed with an energy service provider. PUC Power Enterprise staff note, however, that it is possible that the City may not be able to enter into a contract with an energy service provider if satisfactory responses to the RFP are not received.

6. Major Variables Affecting Long-Term Fiscal Impact and Customer Rates

As noted above, the financial viability of the CCA Program is still largely unknown and depends upon a number of factors. Some of the major variables are:

(a) *California PUC Rulings* - The California PUC has yet to determine the Cost Recovery Surcharges (CRS)[4], set the costs PG&E will be allowed to charge CCAs for services (such as customer billing), and establish the level of commitment a city must demonstrate for PG&E to no longer procure electricity for city customers. After these determinations are made, likely in December of 2005, it will be possible to have a clearer understanding of the fiscal viability of the City's CCA Program.

(b) *Customer Mix* - State law requires that CCAs offer service to all residential customers. However, the inclusion of commercial customers can make a CCA more fiscally sound. The subject resolution states the City intends to offer service to all classes of customers,

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[4] According to PUC Power Enterprise staff, pursuant to AB 117, cost recovery surcharges (CRS) are expenses the California PUC will charge San Francisco CCA customers to pay a share of the unavoidable costs of power contracts that were entered into by the State and PG&E, so that PG&E's remaining customers are no worse off due to CCA implementation by the City.

including San Francisco residents and businesses. However, the number of commercial customers who will choose CCA electricity service is unknown, and will largely depend upon the electricity price which the CCA will be able to offer. Substantial opt-out by larger commercial electricity customers presents a substantial risk to the economic success of the CCA. According to PUC Power Enterprise staff, one percent of the CCA's potential accounts consumes 50 percent of the potential CCA electric consumption. The customers comprising this one percent are businesses that are large electricity consumers. Therefore, as previously noted, PUC Power Enterprise staff advises that one of the most important ways to ensure that as few customers as possible choose to opt-out of CCA is through a thorough communications campaign to all residents and businesses in San Francisco, with a strong emphasis on targeted outreach to the largest electricity consumers.

(c) *Trading Abilities of Supplier* - According to the PUC/ENV draft IP, to achieve the long-term CCA goals, the City must successfully implement the CCA Program with a supplier with consistently superior trading abilities.

(d) *Proposition H Bond Financing* – As noted above, in 2001 San Francisco voters approved Proposition H, amending the City Charter to give the Board of Supervisors authority to issue revenue bonds to develop renewable energy facilities and to implement conservation in both the public and private sectors. The subject resolution calls for the use of this bond fund mechanism to invest in large-scale wind or other cost effective renewable energy generation. The taxable status of such funds may impact the financial viability of the CCA program and/or the rates charged to CCA customers.

Nixon Peabody LLP, in its November 10, 2005 report to LAFCO regarding the issue of the tax status of Proposition H bonds, found that:

"Whether the bonds will qualify for tax-exempt status and other factors affecting their marketability are

dependent on the structure of the transaction being financed... Generally, in order to qualify for tax exemption, the facilities which are financed must be owned by CCSF (or other governmental entity) or operated by CCSF (or other governmental entity) or by a non-governmental entity on behalf of CCSF pursuant to a contract that meets certain requirements prescribed by the Internal Revenue Service. Even if not tax exempt, Proposition H Bonds could still be issued to finance facilities which further CCA, albeit at a slightly higher interest cost."

(e) *Other Market Factors* - Other electricity market factors, including other supplier prices, a natural disaster, and overall market failure, are potential significant contributors to CCA's long-term financial viability.

Summary of Key Points:

The total estimated one-time start-up costs for the implementation of a CCA Program range between $8,871,316 and $12,100,948. Local Power's proposed CCA program budget is $12,100,948, and the PUC's preliminary proposed budget ranges between $8,871,316 and $10,012,721, not including the value of existing PUC staff working on CCA implementation during FY 2005-2006. The long-term financial viability of the CCA Program is still largely unknown and depends upon a number of factors, including future CPUC rulings, customer mix, trading abilities of the supplier, tax status of Proposition H bonds, and other market factors.

The budgets proposed by Local Power and PUC have significant differences. For example, the two budgets assume different governance structures, have different staffing plans, utilize different timelines, and allocate different amounts of time and resources to the program functions. According to the PUC's proposed budget, the City will not incur any additional costs in the current fiscal year by approving the subject resolution, but the City will incur new costs in the current fiscal year under the Local Power proposed budget, estimated to be $5,570,915. The Budget Analyst questions, however, whether the PUC has the staffing capacity to complete

all of its proposed FY 2005-2006 activities with its current level of staffing.

According to both the Local Power and PUC proposed budgets for CCA implementation, significant new funds for start-up and one-time costs will be required in the next one or two years. It is estimated that the Local Power proposed plan would require $6,530,033 in FY 2006-2007. Because the PUC's proposed CCA implementation timeline is later, it is estimated that the PUC proposed plan would require between $8,471,316 and $9,612,721 in both FY 2006-2007 and FY 2007-2008.

There are four potential funding mechanisms currently identified for the one-time and start-up costs. They are: Hetch Hetchy Enterprise net operating revenues, General Fund revenues, a loan from a wholesale electricity supplier, and Proposition H revenue bonds. Ongoing costs for the CCA Program would be included in the rates to be paid by CCA customers comprised of San Francisco residents and businesses.

Although the estimated reported one-time start-up costs of up to $12,100,948 for CCA implementation are significant, they are small relative to the estimated ongoing revenues that are projected to be realized by implementing a CCA Program. According to PUC Power Enterprise staff, the CCA Program revenues are expected to exceed $200,000,000 a year, an amount almost as much as the combined sewer and water revenues from City residents and businesses.

The financial viability of the CCA Program is still largely unknown and depends upon a number of factors. Under some scenarios studied by Altos, a consultant retained by the PUC at a cost of approximately $120,000, the City's proposed CCA Program "has a reasonable prospect of offering customers a combination of reasonable priced, cleaner energy, and lower fossil fuel rate risk to its citizens." In the best case scenario, the CCA offers the prospect of savings of $700 million over 30 years, although there would be projected deficits from 2006 through 2008. "Savings," according to PUC Power Enterprise staff, is the decrease in the CCA's costs of

supplying electricity as compared to PG&E's costs. PUC Power Enterprise staff advise that a portion of these savings will likely be used in the provision of an incentive package to the electricity service provider.

According to PUC Power Enterprise staff, a crucial assumption regarding the savings mentioned above is that the City must contract with a supplier having consistently superior abilities at purchasing and trading electricity on the market. However, according to the PUC/ENV draft implementation plan (IP), "In all cases, in the early years through 2008 or 2009, it is reasonably likely that CCA customer bills would exceed those of equivalent Pacific Gas and Electric (PG&E) bills. During the period of 2009-2010, it is estimated that CCA customer bills would show small savings over PG&E, and after 2010 CCA customer bills could be consistently lower due both to the performance of the City's supplier and the City's investment in a commercially available renewable power project – which at this juncture appears to be a wind project."

There are a number of questions related to the CCA Program's governance and functions that have yet to be answered. These questions may have a significant impact on the budget for CCA implementation. For example, the proposed resolution is not clear about whether the PUC or a combination of the PUC and the Program Director has the authority to implement CCA. There are also inconsistencies between the subject resolution's recommended IP and the subject resolution's policy and program recommendations. Therefore, the Budget Analyst has made recommendations that the Board of Supervisors amend the subject resolution in order to clarify these issues.

Recommendations:

1. In accordance with Comment No. 1, amend the subject resolution to clarify the Board of Supervisors intent related to the governance structure of the Community Choice Aggregation (CCA) Program, regarding whether the PUC or a combination of the PUC and the Program Director has the authority to implement the CCA Program.

2. In accordance with Comment No. 2, amend the subject resolution to clarify the Board of Supervisors intent with regard to the differences between the Local Power draft implementation plan and the subject resolution's LAFCO policy and program recommendations.

3. In accordance with Comment No. 3, amend the subject resolution to clarify the final disposition of the draft implementation plan that was submitted by PUC/ENV.

4. In accordance with Comment No. 3, amend the subject resolution to clarify how and which of LAFCO's policy and program recommendations are to be incorporated into the final Community Choice Aggregation Implementation Plan.

5. In accordance with Comment No. 4, amend the subject resolution to request that the City, either the PUC or Program Director, as decided by the Board of Supervisors, undertake a RFI/RFQ process as soon as possible, preferably prior to the end of the second quarter of FY 2005-2006, so that the information gained can be used to plan for the FY 2006-2007 budget.

6. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

Harvey M. Rose

cc: Supervisor Ammiano
Supervisor Mirkarimi
Supervisor Elsbernd
President Peskin
Supervisor Alioto-Pier
Supervisor Daly
Supervisor Dufty
Supervisor Ma
Supervisor Maxwell
Supervisor McGoldrick
Supervisor Sandoval
Clerk of the Board
Controller
Noelle Simmons
Cheryl Adams

ESTIMATED CCA ONE-TIME ACTIVITIES AND COSTS

CCA One-Time Pre-Start-Up Activities (1)	Estimated Total $
Implementation Plan Finalization (2)	$240,000
CCSF Customer Data Updates (3)(4)	$10,000
Request for Proposals (5)(6)	$150,000
Customer Call Center (7)	$250,000
PG&E Start-Up Service Fees	$838,508
Communications Effort (8)	$4,350,000
Total	**$5,838,508**

PG&E Service Fees (8)

		$/Event	$/Account	$/hour	$/minute	Estimated Work Hrs/mins	# of Accounts/ Meters	Subtotal $/Event	Subtotal $/Unit/Hourly	Total $
Opt-Out										
	Notifications (12)	$ 1,400.00	$ 0.36				359,143	$ 5,600.00	$ 452,520.18	$ 458,120.18
	Processing		$ 1.18				35,914		$ 42,378.52	$ 42,378.52
Subtotal										**$ 500,498.70**
Other PG&E Service Fees										
	CCA Establishment			$ 95.00		25			$ 2,375.00	$ 2,375.00
	Customer List Development	$ 2,390.00						$ 2,390.00		$ 2,390.00
	Customer Mass Enrollment Processing	$ 4,120.00	$ 0.40				323,229	$ 4,120.00	$ 129,291.60	$ 133,411.60
	PG&E Customer Contacts (phone calls)				$ 0.92	217,210			$ 199,833.10	$ 199,833.10
Subtotal										**$ 338,009.70**
Total										**$ 838,508.40**

Notes:

1) One-time Start-Up activities are tasks that must be completed prior to the initiation of the customer opt-out notification process, which commences approximately 105 days before customer transfer from PG&E occurs.

2) Funded in 2005-2006

3) Prior to commencing service the CCA will need to update its customer information, which includes detailed customer load data, and potential customer contact information. Detailed customer load data is important at this stage because prior to the commencement of the opt-out period the CCA will need to produce a load forecast for both power procurement and regulatory purposes. It is important that the City have several years of customer load data to best analyze electrical demand patterns over time.

4) Funded in 2005-2006

5) Includes Request for Information and Request for Qualifications

6) Funded in 2005-2006

7) Contingency customer care support in case call volumes are higher than expected.

8) The PG&E service fee estimates are based on testimony provided by PG&E to the CPUC during Phase II of the CCA proceeding. Although CCSF has contested the cost figures provided by PG&E, we are assuming here, only for budgeting purposes, that the CPUC adopts the PG&E proposed costs.

9) For opt-out, the $0.36/account notification fee assumes that the cost of materials and postage is included here and there will be no additional cost for opt-out notification mailings. There will be 4 opt-out notification "events", so we have multiplied the per event fee by 4. Opt-out processing assumes that PG&E will only charge the CCA for the cost of processing customer accounts that are returning to PG&E bundled service. A 10% opt-out rate was assumed, meaning that 35,914 customers elect not to participate in the CCA program.

10) PG&E defines CCA establishment as the cost of establishing a new business relationship between the CCA and PG&E including such costs as EDI testing and processing of forms and agreements including but not limited to: the CCA Service Agreement, The CCA Provider Information Form, The Credit Application, The Electronic Funds Transfer Agreemetn, and provides for a review of the CCA's credit worthiness. Although the time necessary to complete this function may vary by CCA, we estimate that this will require 25 hours of PG&E staff time.

11) In testimony before the CPUC PG&E estimated its cost per minute for handling customer call related to a specific CCA formation at $0.92. CCSF has contested this cost figure, but for purposes here we have assumed they are successful on this point before the CPUC. We have made a conservative assumption on the amount of calls PG&E will take related to the CCSF CCA program. This assumption is based on the formula used in Appendix A of the SFPUC/SFE draft Implementation plan: 1 customer in 50 will call monthly with a question resulting in 6300 calls per month, or approximately 250 calls per day; each call will average 7 minutes duration with a 1 minute wrap up time. For purposes here we assume that PG&E in the start-up period will receive 40% of all customer calls regarding the program over the course of a year. This estimate of customer calls to PG&E will not reduce the need to staff the CCA call center to handle the full customer contact load.

(12) Although there are four opt-out notifications sent to potential CCSF CCA customers during the full opt-out period, a multiplier of 3.5 was used to account for some customer loss along the way and a corresponding reduction in notices sent as a result.

CCA START-UP COSTS

Draft - 09-23-2005

CCA Start-Up Activities (1)				
Staffing Breakdown and Roles	Head Count	CCSF Classification	Salary Per Employee	Staff Cost with Overhead (2.55)
Customer Care Representatives (2)	9	1478	$ 54,860.00	$ 1,259,037.00
Customer Service Manger	1	5602	$ 98,696.00	$ 251,674.80
Customer Care Center Supervisors	2	1480	$ 60,164.00	$ 306,836.40
Administrative Assistants	2	1402	$ 39,078.00	$ 199,297.80
Information System Administrator	1	1023	$ 83,018.00	$ 211,695.90
Regulatory Analyst	1	5601	$ 68,666.00	$ 175,098.30
Regulatory Manager	1	5634	$ 111,436.00	$ 284,161.80
Contract, Finance, and Reporting Analysts (3)	0	1823	$ 78,702.00	$ -
Attorney	1	8177	$ 127,270.00	$ 324,538.50
Contract Manager (4)	0	922	$ 78,013.00	$ -
Marketing/Outreach Coordinators (5)	2	931	$ 90,324.00	$ 460,652.40
Opt-out Supervisor	1	1480	$ 60,164.00	$ 153,418.20
Opt-out Clerks	3	1478	$ 54,860.00	$ 419,679.00
Public Relations Officer	2	1314	$ 72,800.00	$ 371,280.00
Executive Secretary	1	1450	$ 58,136.00	$ 148,246.80
Total	27			$ 4,565,616.90

Miscellaneous Start-Up Costs	Activity Cost $
Upgrades to SFPUC Customer Call Center Facilities (6)	$ 750,000.00
Total	$ 750,000.00

Subtotal Staff Costs	$ 4,565,617
Subtotal Misc. Costs	$ 750,000
At 50% Staffing Start-Up	$ 2,282,808
At 75% Staffing Start-Up	$ 3,424,213
CCA 100%Start-Up Total Costs	$ 5,315,617

Notes:

1) By start-up we are referring a period 6-12 months prior to commencement of full CCA operations. This budget should take the program through the initial opt-out period. *This cost forecast does not include a detailed consideration of office space for new PUC staff.*
2) Based on analysis described in Appendix A of the SFPUC/SFE Draft Implementation Plan, we estimate that the customer call center will need 9 customer care representatives for regular operation. There may be a short-term need for additional customer call center support during the intial opt-out period. This additional support may be filled by cross-training 3 SFPUC water/sewer call center staff to handle CCA matters when during periods of high demand for customer service - we have also included contigency funding in the one-time cost category of million if very
3) Increases to 3 after commencement of service
4) Increases to 1 after commencement of service
5) Increases to 3 after commencement of service - however if the Sales/Energy Efficiency Division is created then these positions will not be nece
6) Includes software, hardware, and new phone lines.
7) The Energy Efficiency, and Marketing Division is based on analysis performed and described in Appendix A of the SFPUC/SFE Draft Implementation Plan. We have provided salary and overhead costs for this division for a full year. Since it is possible that there will be external funding for some portion of these costs they have not been included, at this time, in the CCA start-up cost category.

ENERGY EFFICIENCY/MARKETING DIVISION STAFFING COSTS ANNUAL BASIS.

Energy Efficiency, and Marketing Division (7)				
Senior Marketers/Account Representatives	5	931	$ 90,324.00	$ 1,151,631.00
Account Representatives for Large Customers	20	1478	$ 54,860.00	$ 2,797,860.00
Sales and Marketing Manager	1	943	$ 136,922.00	$ 349,151.10
Supervisor of Account Representatives	1	1824	$ 82,225.00	$ 209,673.75
Sales and Marketing Administrative Assistant	2	1402	$ 39,078.00	$ 199,297.80
Subtotal: Energy Efficiency, and Marketing Division	29			*$ 4,707,613.65*

COMMUNICATIONS BUDGET BREAK-DOWN.

Draft - 09-23-2005

Communications Program	Estimated Total $
Advertising/Marketing Campaign	$3,000,000
One-Time Communications Staff	$500,000
Customer Research	$200,000
Printing, Materials, Graphic Design	$250,000
Four City-wide informational mailings (not opt-out)	$400,000
Total	**$4,350,000**

SFPUC CCA BUDGET 2005-2006. AND EXPENDITURE PLAN.

Draft - 09-23-2005 -

SFPUC CCA Budget FY 2005-2006

Staff (1)	Role	CCSF Classification	Average Salary	Staff Cost with Overhead (2.55)	% of Time Committed to Project	Adjusted Staff/Consulting Cost for Project
	Regulatory Manager	5634	$111,436	$284,162	0.9	$255,746
	Utility Analyst	5601	$68,666	$175,098	0.9	$157,588
	Utility Specialist	5602	$98,696	$251,675	0.33	$83,053
	Principle Admin Analyst	1824	$91,962	$234,503	0.75	$175,877
	City Attorney	8177	$127,270	$324,539	0.75	$243,404
Consultants						
	Implementation Plan (2)					$250,000
	RFP/RFI/RFQ (3)					$150,000
Total						**$1,315,668**

Notes:

1) SFPUC and City Attorney staff to provide: CCA regulatory support, task force support, analytical support on CCA Implementation Plan, respond to initiatives of Board of Supervisors, and limited small scale outreach to San Francisco residential and business communities.

2) The consulting budget for the implementation plan includes funds analytical and technical assistance in finalizing the document required to be submitted to the California Public Utilities Commission prior to commencement of CCA service as well as analytical and technical assistance producing a compliance filing for the California Renewable Portfolio Standard (RPS). The RPS filing is not yet a requirement, but may become one.

3) The consulting budget for the RFP includes analytical assistance in producing a Request for Information and a Request for Qualifications that will precede the release of the RFP.

SFPUC EXPENDITURE PLAN FOR 2005-2006.

Draft - 09-23-2005

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Regulatory Manager	$63,936.41	$63,936.41	$63,936.41	$63,936.41
Utility Analyst	$39,397.12	$39,397.12	$39,397.12	$39,397.12
Utility Specialist	$20,763.17	$20,763.17	$20,763.17	$20,763.17
Principle Admin Analyst	$43,969.33	$43,969.33	$43,969.33	$43,969.33
City Attorney	$60,850.97	$60,850.97	$60,850.97	$60,850.97
Consulting Resources				
Implementation Plan		$26,500.00	$125,000.00	$98,500.00
RFI/RFQ/RFP			$100,000.00	$50,000.00
Subtotal	$228,916.99	$255,416.99	$453,916.99	$377,416.99
Total	**$1,315,667.97**			

SFPUC
WATER
WASTEWATER
POWER

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

1155 Market St., 4th Floor, San Francisco, CA 94103 • Tel. (415) 554-1551 • Fax (415) 554-3280•

Memo To: Budget Analyst Office.

From: SFPUC Power Enterprise Staff.(September 28, 2005).

SFPUC Estimated CCA Start-Up and Short-Term Budgeting In Response to Budget Analyst Questions of September 20/2005. (September 28, 2005).

Attached are the answers to the Budget Analyst questions and accompanying explanations regarding CCA budget estimates.

Q.1 What is the detailed projected CCA one-time and start-up costs?

A.1 Please see the separately forwarded numbers in Attachment I and Attachment II.

Given the rapid turn-around for completion of this Draft of CCA Start-Up and Short-term budgets this document has not benefited from the review of SFPUC departments who could provide scrutiny and perhaps correction of some of the estimates. Later drafts will incorporate this review.

This document uses the following terms: - "One-time costs" are costs incurred for an activity that either is only undertaken prior to CCA implementation or is undertaken in an extremely intensive level prior to CCA implementation, a level that is anticipated to quickly decline during CCA operation. For example, CCA advertising cost and effort is likely to be far higher prior to implementation than during normal operation. Start-up costs are costs for activities undertaken at a standard or similar level of intensity both before and during CCA normal operation but these costs are incurred prior to actual CCA implementation e.g. a call centre will need to be operated prior to CCA implementation and after CCA implementation. The recognition of the important difference between these terms was not fully understood in the SFPUC/SFE CCA Draft Implementation Report of April 27th/2005 and the terms may have been used interchangeably. Hence the preliminary $5 million figure for start-up costs cited in that report was actually an early assessment of one-time costs. Therefore, as discussed below, start-up costs are in fact the start of regular CCA activities (therefore not one-time costs) that will extend into standard operating budgets. However these are termed start-up costs since the activity and cost incurrence will begin prior to receipt of any CCA revenues.

The grand total of one-time and start-up costs is currently estimated at between \$9.0 and \$10.0 million. If however external funding is not available to fund needed energy efficiency positions then these amounts could increase.

Attachment I provides an estimated one-time cost of \$5.83 million. A small portion of this cost is included in the current SFPUC 2005-2006 budget. However the majority of the cost is for two items a significant communication effort that is estimated to begin by the second quarter of 2006, and the various PG&E fees that will be incurred on a one-time basis.

The estimated service fees to be charged by PG&E contain a number of critical assumptions: a) that the opt-out notification fee includes the cost of both materials, meaning printing the opt-out notifications, and postage for mailing the notices; and b) that the \$0.92/minute cost proposed by PG&E for CCA related calls is accepted by the CPUC (CCSF contests this cost figure).

Attachment II provides an SFPUC/SFE estimated staffing total of \$4.56 million for CCA Start-Up activities on an annual basis that equates to \$2.28 million assuming a 50% activity level prior to start-up, and \$750,000 for hardware/software support to the Customer Call Centre. However this total is also subject to a number of qualifications.

First, the staffing total does not include any significant effort regarding the marketing and outreach for energy efficiency to specific customer accounts – a total of 33 employees and an annual staffing cost of \$4.4 million was previously estimated in the SFPUC/SFE Draft Implementation Plan for staffing an energy efficiency/outreach budget. For purposes of estimating City of San Francisco funded start-up costs we have assumed, for now, that funding for energy efficiency efforts will be obtained externally of the CCA budget e.g. via direct control of the electric Public Goods Surcharge funds contributed by San Francisco electric ratepayers. To the extent the Implementation Plan finally adopted by the BOS requires a significant direct marketing of energy efficiency (individual customer account oriented) without a source of external funding, the CCA start-up staffing costs for this effort would result in staffing costs significantly above those presented in Attachment II.

Second, the staffing cost estimate is prepared on an annual basis. A rule of thumb for the actual pre CCA-revenue inflow start-up costs would be some

percentage of this amount. This fraction may vary between the different staffing categories e.g. most customer care representatives might start employment e.g. about 3 months prior to implementation while some communications staff will be working at least one year prior CCA implementation. Above we use a 50% figure until a more precise sequencing and time-line for CCA implementation can be developed.

Third, we note, that as a back-up measure, it may be possible for some of the largest budget elements – like Customer Care (Call Center staff) – to also utilize existing SFPUC call center staff who respond to water and sewer phone inquiries for any non-budgeted overflow calls. However we have budgeted a contingency amount of $250,000 in one-time costs to deal with potential call centre overflow.

Fourth, there is a degree of overlap and trade-off between the expenditures on the communications effort that we present and the expenditures on customer care representatives (which total annually almost $1.9 million of the $4.65 million staffing cost). To the extent the Communications effort satisfactorily provides an accurate and complete CCA message to the great majority of San Franciscans then the number of phone inquiries should correspondingly drop, as will the number of phone-calls to which PG&E responds for which San Francisco will be charged.

We also present a figure of $1.3 million dollars already budgeted for CCA work in the 2005-2006 budget year by the Hetch Hetchy Power Enterprise. This budget is for internal staff, city attorney time, outside consulting services, and data request costs. However a relatively small amount ($26,500) has already been committed for work – s ee below under 2.

We have also presented a separate accounting of Communication/Outreach costs as estimated by the Communications Department of the SFPUC – this total budget is $4.3 million. This communications budget presumes a 9-month customer outreach program that escalates as the opt-out period nears. Depending upon timing of BOS decisions and the timing of a final RFP decision this Communications effort may have to be accelerated into a more compressed time frame. This compression may result in a cost reduction to the overall staffing costs. For purposes of conservatively estimating one-time costs we recommend that 100% of this budget be used.[1]

[1] The Communications staff of the SFPUC proposed budget is $5.34 million that in total incorporates five phases of activity beginning about 18 months prior to CCA implementation and extends into a post-enrollment period. Given the anticipated time-line for CCA implementation the above $4.3 million budget is a condensation of this plan.

Q.2 What is the SFPUC CCA budget for Fiscal Year 2005-2006, including source of funds.

A.2 In Attachment IV, page 1, we present information on the current SFPUC CCA budget for 2005-2006. Depending upon sequencing of the steps toward implementation of CCA it may be that this budget will have to expand to accommodate some communication effort during the second quarter of 2006. Hetch Hetchy Enterprise net operating revenues are the source of funding for these CCA activities.

Q.3 What is the amount already used in the SFPUC FY 2005-2006 budget, including purpose of use.

A.3 About one quarter of the 2005-2006 staffing budget has already been expended (July-September) and a small amount of consultant funds have been encumbered (but not expended) for work in late September and October ($26,500). The purpose of these consultant funds is to improve the CCA economic analysis tool already developed in fiscal 2004-2005.

Q.4 Expenditure plan for the remaining FY 2005-2006 funds earmarked for CCA activities.

A.4 The expenditure plan in summary form is provided in Attachment IV, page 2, and the staff and consultant activities are all oriented toward a continuation of the steps necessary to implement CCA.

Q.5 Which start-up and one-time costs required by the merged CCA resolution being considered by the finance committee will be covered by the SFPUC's FY 2005-2006 budget?

A.5 We do not know which start-up and one-time costs will actually be required by a merged CCA resolution. But currently there are no extensive or large-scale start-up or one-time costs currently covered by the SFPUC FY 2005-2006 Budget. However this 2005-2006 budget is anticipated to be adequate to accommodate the important steps of development and publication costs for an RFI/RFQ/RFP process, the filing of a CCA Implementation Plan at the CPUC, and continued regulatory intervention at the CPUC.

Q.6 Was there any plan for the source of funds for one-time CCA costs in the SFPUC implementation plan? If not, in the SFPUC analysis, what are some of the options available to the City and SFPUC for initially funding CCA?

A.6 As stated above The SFPUC/SFE Draft Implementation Plan raised the issue of one -time CCA costs and made a very preliminary estimate as discussed at the Budget and Finance Committee Hearing on September 15th. However the plan did not address the issue of the source of funds for either one-time or CCA start-up costs. Options appear to include additional funding from Hetch Hetchy Enterprise net operating revenues, - which would require the consent of the SFPUC Commissioners - revenues from the General Fund, or a loan from the wholesale electric supplier to the CCA. In cases where city funding is used for CCA start-up costs, this could potentially be considered a loan to the CCA enterprise to be repaid over some defined period of time. It also may be possible, depending upon timing, to make arrangements to defer payment to some vendors until after the CCA enterprise begins obtaining revenues.

Attachment VI

Local Power's Proposed CCA Implementation Budget, One Time Costs

Task	Program Director	SFPUC/SFE	Total
Start Up Phase			
Finalize IP	$95,004	$46,340	$141,344
Define R&R, MOU	$50,400	$4,456	$54,856
Define Metrics	$12,852	$2,350	$15,202
Financial Processes	$26,460	$8,772	$35,232
Engage Staff	$10,080	$8,913	$18,993
Program Plan	$91,224	$22,670	$113,894
Engagement Strategy	$20,916	$0	$20,916
CPUC Phase II	$26,460	$60,159	$86,619
Solar Ordinance	$95,760	$7,604	$103,364
Kick-Off	$79,380	$46,523	$125,903
Subtotal Start-Up	*$508,536*	*$207,788*	**$716,324**
Program Development Phase			
Program Basis Report	$237,258	$135,017	$372,275
Remove Barriers	$38,934	$22,970	$61,904
Risk Analysis	$70,560	$47,997	$118,557
CCA Lessons Learned	$31,500	$8,003	$39,503
Hydro Options	$19,656	$158,666	$178,322
Low-Income Program	$8,316	$171,041	$179,357
Financing Plan & Model	$371,700	$38,978	$410,678
DB Integration	$141,120	$169,983	$311,103
PG&E Interface Plan	$191,520	$196,895	$388,415
CSC Analysis	$14,616	$117,358	$131,974
CSC Design	$30,240	$259,189	$289,429
Comm Plan	$93,240	$10,369	$103,609
360 Portfolio	$83,160	$106,610	$189,770
PG&E Tech Interface	$40,320	$170,732	$211,052
Siting, Permiting, Acquisition	$206,640	$242,380	$449,020
Regulatory Support	$54,432	$55,102	$109,534
Setup Rate Board	$20,160	$64,726	$84,886
Subtotal Program Development	*$1,653,372*	*$1,976,016*	***$3,629,388***
Procurement Phase			
Prepare RFI/RFQ	$181,440	$36,358	$217,798
Prepare RFP	$667,296	$340,108	$1,007,404
Prepare T&C, ITP	$174,384	$57,863	$232,247
Prepare Eval Proc	$101,304	$24,857	$126,161
Industry Review	$174,888	$95,993	$270,881
Evaluate Bids	$461,160	$226,077	$687,237
Award	$267,120	$140,998	$408,118
PM/CM Plan	$131,040	$91,811	$222,851
H-Bond Structuring	$143,640	$86,909	$230,549
ESP Financial Mgt Sys	$68,040	$21,401	$89,441
Subtotal Procurement	*$2,370,312*	*$1,122,377*	**$3,492,689**
Basic Service Implementation			
LOE	1,628,160	2,634,387	4,262,547
Subtotal Basic Service Implementation	*$1,628,160*	*$2,634,387*	$4,262,547
Note: This phase includes $2.12 M in communications and marketing costs.			
TOTAL ONE-TIME COSTS	***$6,160,380***	***$5,940,568***	***$12,100,948***

LOCAL POWER PROPOSED STAFFING PLAN FOR CCA IMPLEMENTATION

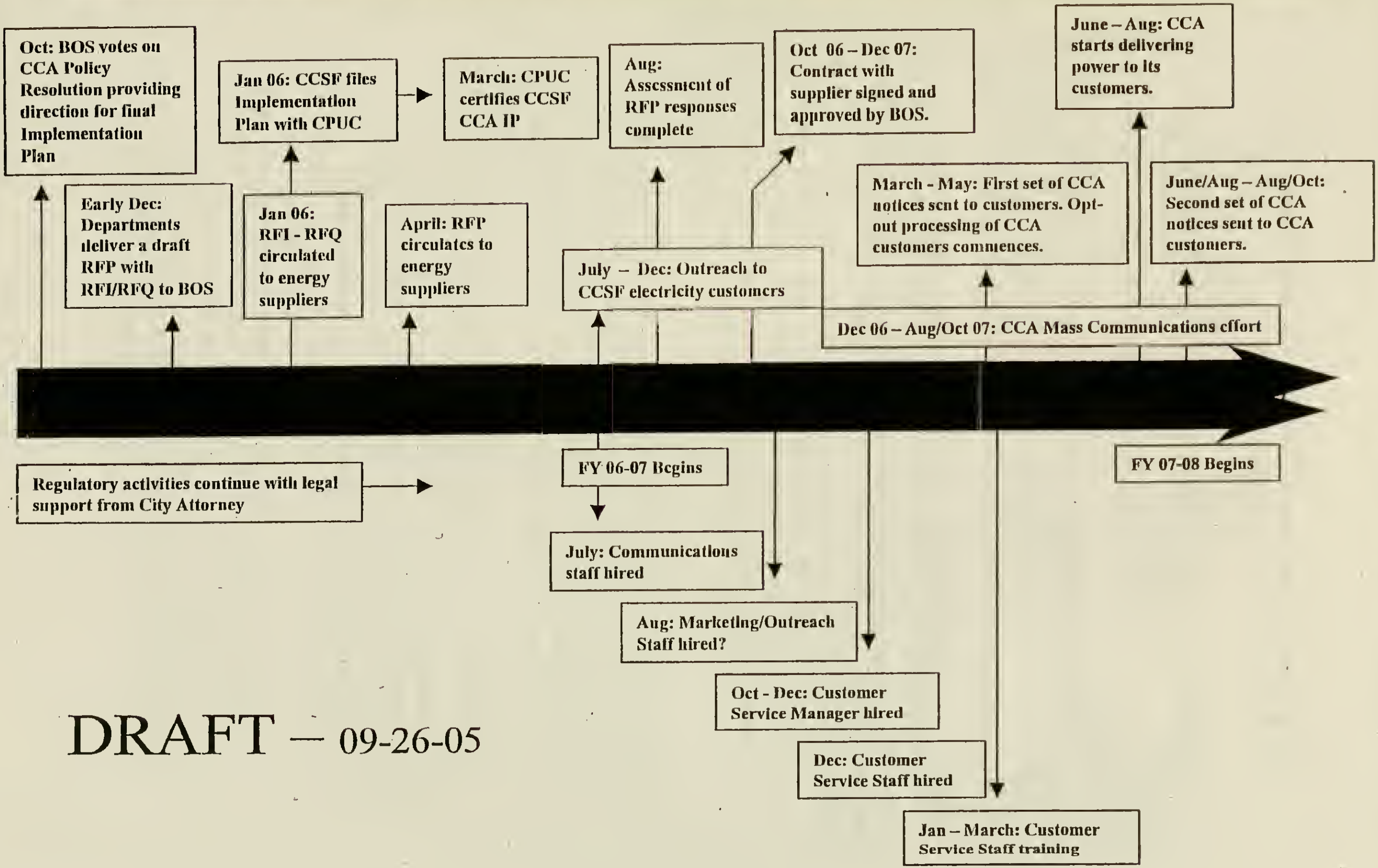
Program Director:

- Program Director
- Project Manager 1
- Project Manager 2
- Project Manager 3
- Project Coordinator 1
- Project Coordinator 2
- Scheduler
- Administrative Assistant
- Graphics/WP
- Sr. Financial Analyst
- Financial Analyst
- Marketing/Comm Manager
- Marketing/Comm Specialist
- Sr. Engineer
- Engineer
- IT Analyst
- Sr. Energy Analyst
- Energy Analyst
- Attorney
- Sr. Regulatory/Policy Analyst
- Regulatory/Policy Analyst
- Compliance Manager
- Contract Specialist

PUC/ENV:

- Project Manager 1
- Project Manager 2
- Project Manager 3
- Project Coordinator 1
- Project Coordinator 2
- Project Coordinator 3
- Administrative Assistant
- Sr. Financial Analyst
- Financial Analyst
- Marketing/Comm Manager
- Marketing/Comm Specialist
- Sr. Engineer
- Engineer
- IT Analyst
- Sr. Energy Analyst
- Energy Analyst
- Attorney
- Sr. Regulatory/Polioy Analyst
- Regulatory/Policy Analyst
- Compliance Manager
- Contract Specialist

Potential CCA Startup Activities & Staffing Timeline Scenario



DRAFT – 09-26-05

Local Power's Proposed Timeline Through Basic Service Implementation

PHASE	DURATION	PROPOSED SCHEDULE
Start-Up	12 weeks	Tue 11/1/05 - Mon 1/23/06
Program Development	17 weeks	Tue 12/27/05 - Mon 4/24/06
Procurement	215 days	Tue 3/28/06 - Mon 1/22/07
RFQ	4 weeks	Tue 3/28/06 - Mon 4/24/06
RFP	13 weeks	Tue 4/25/06 - Mon 7/24/06
Bidders Prepare Bids	13 weeks	Tue 7/25/06 - Mon 10/23/06
Evaluation and Award	13 weeks	Tue 10/24/06 - Mon 1/22/07
Basic Service Implementation	13 weeks	Tue 1/23/07 - Mon 4/23/07

local power
4281 Piedmont Avenue Oakland, CA 94611 510 451 1727

To: **Catherine Rauschuber, Budget Analyst's Office**
Fr: **Paul Fenn, Local Power**
Re: **Budget Analyst's Report on CCA Before Budget and Finance Committee**

Local Power comments on the October 6, 2005 Budget and Finance Memo

1. We agree with the assessment that the Local Power and PUC Budgets vary, the core reason for the variances is that the Local Power view of what the CCA Program Implementation tasks need to implemented be is different from the PUC view of what tasks need to be implemented.

The root of this difference lies in the degree to which the CCA program is viewed as a commodity power procurement exercise (SFPUC view) versus a game-changing DG and renewables infrastructure build, supplemented by commodity power (Local Power view). Evidence of this fundamental difference includes:

- SFPUC planning to rush out an RFI/RFQ immediately, without dealing with some of the tough design issues and decisions first. Local Power proposes to do some homework and define a baseline program, addressing the complex renewable build and PG&E interface, prior to soliciting industry feedback so that the feedback received is more germane.
- SFPUC's lack of planning and budgeting for start-up tasks, and the incomplete set of those tasks they do set forth
    - Rationale "start-up" and "one-time" costs is inadequate. SFPUC simply has "scenarios" of 50% to 100% staffing for level-of-effort which result in a swing of \$2.3M to \$5.3M. What drives the level of activity? What are these people doing? What are the deliverables? At 100% staffing the SFPUC budget totals \$11.2M for startup/one-time.
- SFPUC inadequate budgeting for important tasks
    - SFPUC budget only has \$150,000 for RFQ/RFI and RFP process – clearly they do not grasp the complexity and importance of what we are undertaking in the RFP (also, didn't they spend more than that on just the implementation plan, which is a relatively simple document?).

2. Under the Section called "Comparing the PUC and Local Power Proposed One-Time Start-up Costs:, in the section entitled "Staffing, there is a statement that "Local Power's draft IP and proposed staffing plan does not include these (Customer Service and Call Center) functions which are assumed to be contracted out."

The Local Power IP does address customer Service and Call center functions in the Program Basis Report section of the IP, as well as in the Program Development and Implementation phases of the Proposed Staffing Plan Local Power submitted to the Budget and Finance Committee September 15, 2005. The abbreviation "CSC" is used for Customer Service Center on the summary sheets.

The Local Power Proposed Staffing Plan reflects performance of the Customer Service and Call Center work by the PUC, consistent with the PUC's IP.

3. In the 'Start-up Costs' section, H-Bond revenues are not discussed as a possible source of funds to cover the start-up costs, which is our proposal in the form of an H Bond reimbursement.

4. In Comment 1., the Program Director is described as an 'outside contractor'. While this is a possible approach, the LAFOC-approved Local Power Implementation Plan dated May 13, 2005 and the Local Power Proposed Staffing Plan dated September 15, 2005 provided an open-ended discussion of the structure for managing the implementation of the SF CCA, and did not specifically state that the PD function should be 'contracted out'.

Please review the program implementation elements of Chapter V of the Local Power Implementation Plan dated May 15, 2005 to revisit our discussion of the steps and approaches Local Power feels are appropriate for the implementation of this critical program.

In further detail on the implementing entity, the Local Power IP describes a recommended staff structure, which was modeled on an approach used to implement a light rail project in the Los Angeles area. There, a special purpose implementation authority was formed by legislation to implement the design and construction of the light rail project, which was then turned over to the Los Angeles MTA for operations once the implementation was complete.

In the Local Power Proposed Staffing Plan, in the Start-up Phase Tasks section, item 2 identifies the development of the governance structure for the implementation of the CCA as a task to be completed.

5. In Table 5, it states that the Local Power IP does not provide for City Contracting requirements. This is not correct. Both the Local Power IP and Proposed Staffing Plan reflect the development of the CCA RPQ and RFP in compliance with all applicable CCSF requirements and programs, which would include compliance with all CCSF contracting requirements applicable to the program.
6. Overall budget. While $11.2M to $12.1M is a lot of money in absolute terms, relative to what this program will accomplish for SF it is insignificant. First, this is nothing extraordinary to prepare a contract that will be worth several billion dollars. It is also insignificant compared to the savings that will result, both for the City and County and for San Francisco ratepayers. By SFPUC's analysis, a successful program scenario could save up to $700M over 30 years. Doing the initial program development and RFP work thoroughly and correctly will be one of the most important factors in enabling the program to capture such a benefit. Finally, the cost is unremarkable considering the dollar value of the City and County's H Bond issuance for the 360 MW, preparation for which constitutes the vast majority of the budget. With a long term view, the Board of Supervisors should give serious consideration to significantly increasing the upfront efforts and budgets to ensure program success. (The important thing at this point is to get the program direction clear and the concrete tasks defined, not dicker over a few hundred thousand dollars.)

Thanks for the opportunity to submit these comments. If you have any questions, do not hesitate to call me.

Paul Fenn
Local Power
510 451 1727

City and County of San Francisco

Meeting Agenda

Budget and Finance Committee

Members: Tom Ammiano, Ross Mirkarimi, Sean Elsbernd

Clerk: Gail Johnson

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Thursday, December 15, 2005 | **1:00 PM** | **City Hall, Room 263**

Regular Meeting

Note: Each item on the Consent or Regular agenda may include the following documents:
1) Legislation
2) Budget Analyst report
3) Legislative Analyst report
4) Department or Agency cover letter and/or report
5) Public correspondence
These items will be available for review at City Hall, Room 244, Reception Desk.

Each member of the public will be allotted the same maximum number of minutes to speak as set by the Chair at the beginning of each item, excluding City representatives, except that public speakers using translation assistance will be allowed to testify for twice the amount of the public testimony time limit. If simultaneous translation services are used, speakers will be governed by the public testimony time limit applied to speakers not requesting translation assistance.

AGENDA CHANGES

REGULAR AGENDA

1. 051721 **[Zoning - Interim Moratorium on New Check Cashing and Pay Day Lender Uses]**
Supervisors Ammiano, Maxwell, Dufty, Daly

Urgency Ordinance approving an interim zoning moratorium on new check cashing and pay day lender uses for 45 days and making required findings, including findings related to the imposition of an interim moratorium, findings of consistency with the priority policies of Planning Code Section 101.1, and environmental findings.

10/18/05, ASSIGNED to Land Use Committee.

10/21/05, REFERRED TO DEPARTMENT. Referred to Planning Department for Environmental Review and Small Business Commission for review and comment.

12/2/05, TRANSFERRED to Budget and Finance Committee.

2. 051559 **[An ordinance conforming state law, provisions of the Administrative Code, which permit any person who is liable for tax on property that has been damaged or destroyed by misfortune or calamity, to apply to the Assessor for reassessment]**

Supervisor Elsbernd

Ordinance amending Section 10.2-5 of the San Francisco Administrative Code to conform to Section 170 of Chapter 2.5, Part 1, Division 1 of the California Revenue and Taxation Code providing that every assessee of any taxable property, or any person liable for the taxes thereon, whose property was damaged or destroyed, without his or her fault, by a misfortune or calamity, may apply for reassessment of that property; specifying the nature of the damage or destruction required to be eligible for reassessment; and also specifying that the Assessor-Recorder may initiate the reassessment where the Assessor-Recorder determines that within the preceding 12 months taxable property located in the County was damaged or destroyed, for the purpose of providing property tax relief to residents of the City and County of San Francisco.

9/13/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

3. 051869 **[Approval of Port Lease with Miller Kelly Architects, Inc. at the Roundhouse One Building located at 1500 Sansome Street]**

Resolution approving Lease between the San Francisco Port Commission and Miller Kelly Architects, Inc., a California corporation, dba MK Think for the lease of the Roundhouse One Building located at 1500 Sansome Street, for a term of ten (10) years and one hundred eighty (180) days with one (1) option to renew for an additional five (5) years. (Port)

11/10/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.
12/1/05, AMENDED. Speakers: None.
Amended on page 1, line 5, be replacing "150" with "1500." New title.
Continued to December 15, 2005.
12/1/05, CONTINUED AS AMENDED.

4. 051789 **[Prevailing wages for workers on public works/improvement projects, workers doing janitorial services, workers in public off-street parking lots, garages, or auto storage facilities, workers in theatrical services; and workers performing moving services]**

Resolution fixing prevailing wage rates for (1) workers performing work under City contracts for public work and improvement; (2) workers performing work under City contracts for janitorial services; (3) workers in public off-street parking lots, garages, or storage facilities for automobiles on property owned or leased by the City; (4) workers engaged in theatrical or technical services for shows on property owned by the City; and (5) workers performing moving services under City contracts at facilities owned or leased by the City. (Civil Service Commission)

(Fiscal impact.)

11/3/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

5. 051870 **[Reserved Funds, Public Utilities Commission]**

Hearing to consider release of reserved funds, Public Utilities Commission, fiscal year 2005-06 budget, in the amount of $16,875,000 for the Power Enterprise Business Plan project. (Public Utilities Commission)

11/10/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

6. **051923** **[Authorization for Loan from SFCTA]**

Supervisor McGoldrick

Resolution authorizing the City and County of San Francisco, through its Municipal Transportation Agency, to borrow $22.57 million of Proposition K Sales Tax Funds from the San Francisco County Transportation Authority to allow the Third Street Light Rail Transit – Muni Metro East Maintenance and Operations Facility Project to proceed in advance of receiving anticipated state grant funds.

11/22/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

7. **050916** **[Policy and Program Recommendations for Community Choice Aggregation Implementation Plan]**

Supervisors Ammiano, Mirkarimi

Resolution submitting Policy and Program Recommendations for a Community Choice Aggregation (CCA) Implementation Plan and approving a CCA Implementation Plan (IP).

(Fiscal impact.)

5/24/05, RECEIVED AND ASSIGNED to Budget and Finance Committee.

9/15/05, AMENDED. Heard in Committee. Speakers: Bruce Wolfe, Community Choice Energy Alliance; Bruce Osterweil, Sierra Club; Nancy; Elise Hilg; Don Eichelberger; Ron Dicks, Interim Chair; CCA Task Force; Jane Morrison, Democratic Central Committee and San Francisco Tomorrow; David Shonbrun, Bay Area Clean Air Task Force; Maurice Campbell, Community First Coalition; Ivel Miash; Linda Kramer; Cathleen Sullivan, San Francisco Bay Chapter of the Sierra Club; Dwight Cocke, TURN; Stekie Evans; Dr. Ahimsa Porter Simchai; Steven Notesell; Tess Wilbom, Haight-Ashbury Neighborhood Council; Eric Brooks, Coordinator, Our City; Barry Hermanson; Irene Dick Endrisi; Mary Go; Samantha Evans, Greenpeace; Paul Fenn; Barbara Hale, Assistant General Manager for Power, San Francisco Public Utilities Commission.
Amended by combining the resolution contained in File 051417 herewith.
Continued to October 6, 2005.

9/15/05, CONTINUED AS AMENDED.

10/6/05, CONTINUED. Speakers: None. Continued to October 13, 2005.

10/13/05, CONTINUED TO CALL OF THE CHAIR. Heard in Committee. Speakers: Ken Bruce, Budget Analyst's Office; Catherine Rauschuber, Budget Analyst's Office; Theodore Lakey, Deputy City Attomey; Monique Zmuda, Deputy Controller; Joe Cohn, Deputy City Attomey; Samantha Rogers, Greenpeace; Dr. Ahimsa Porter Sumchai; Paul Fenn; Barbara Hale, Assistant General Manager for Power, San Francisco Public Utilities Commission; Gloria Young, Executive Officer, Local Agency Formation Commission (LAFCO).

12/1/05, CONTINUED. Speakers: None.
Continued to December 15, 2005.

ADJOURNMENT

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to the City, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of the Board of Supervisors. Any written comments should be sent to: Committee Clerk of the Budget and Finance Committee, San Francisco Board of Supervisors, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the committee clerk by that time may be taken directly to the hearing at the location above

LEGISLATION UNDER THE 30-DAY RULE

(Not to be considered at this meeting)

Rule 5.40 provides that when an ordinance or resolution is introduced which would CREATE OR REVISE MAJOR CITY POLICY, the committee to which the legislation is assigned shall not consider the legislation until at least thirty days after the date of introduction. The provisions of this rule shall not apply to the routine operations of the departments of the City or when a legal time limit controls the hearing timing. In general, the rule shall not apply to hearings to consider subject matter when no legislation has been presented, nor shall the rule apply to resolutions which simply URGE action to be taken.

051907 **[Minimum Compensation Ordinance]**

Supervisors Ammiano, McGoldrick, Mirkarimi

Ordinance amending the San Francisco Administrative Code by amending Sections 12P.2, 12P.3, 12P.4, 12P.5, 12P.6, 12P.7 and 12P.8, and by adding Sections 12P.5.1, 12P.6.1 and 12P.6.2, to amend the Minimum Compensation Ordinance by making both substantive and clarifying changes with respect to: the obligations imposed on Contractors; notification, investigation, auditing, inspection, enforcement and settlement procedures; the withholding of contract payments; provisions relating to waivers; certain definitions, including the definition of Covered Employees; an increase in the hourly wage rate for all employees; the assessment of liquidated damages; and the process for determining whether a Contractor has violated the Ordinance and for the administrative appeal of such determinations.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051908 **[Health Care Accountability Ordinance]**

Supervisors Ammiano, McGoldrick

Ordinance amending the San Francisco Administrative Code by amending Sections 12Q.2.1, 12Q.2.2, 12Q.2.9, 12Q.3, 12Q.4, 12Q.5 and 12Q.6, and adding Sections 12Q.5.1 and 12Q.5.2, to: change the requirements of the Health Care Accountability Ordinance with respect to health benefit plans, exemptions for certain categories of employees and agreements, and the payment rates due from employers; authorize the Health Commission to increase the payment rates; authorize the withholding of contract payments; make both substantive and clarifying changes with respect to obligations imposed on Contracting Parties for notification, investigation, auditing, inspection, enforcement, and settlement procedures; revise procedures for the assessment of liquidated damages; establish a process for determining violations and for the administrative appeal of such determinations; and ratify certain administrative actions.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051916 **[Increasing liquidated damages and civil penalty provisions from up to $2,500.00 to up to $5,000.00 for violations of the First Source Hiring Program]**

Supervisor Mirkarimi

Ordinance amending the San Francisco Administrative Code by amending sections 83.10 and 83.12 of the First Source Hiring Program to increase the liquidated damages and civil penalty provisions from up to $2,500.00 to up to $5,000.00 for every new hire for an entry level position improperly withheld from the first source hiring process.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051919 **[Worker Health Care Security Ordinance]**

Supervisor Ammiano

Ordinance amending the San Francisco Administrative Code by adding Sections 14.1 through 14.10, to require that employers operating within San Francisco make health expenditures on behalf of employees, set penalties and provide for enforcement, and creating a health security task force to analyze among other related issues, the desirability and feasibility of imposing a fee on employers to provide health care for employees.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051924 **[Establishing Maximum Work Hours For General Assistance Programs]**

Supervisors McGoldrick, Ammiano

Ordinance amending Chapter 20, Article VII, to add Section 20.58.6 to provide that the maximum number of hours the Department may require General Assistance recipients to work shall be calculated by dividing the Maximum Monthly Assistance Grant under Section 20.57 of this Chapter by the hourly wage rate established under Section 12P.3(b)(3) of the Administrative Code and by amending Chapter 20, Article VIII, Section 20.77.6 to provide that the maximum number of hours of activities the Department of Human Services may require of participants in the Personal Assisted Employment Service Program shall be calculated by dividing the Maximum Monthly Assistance Grant by the Minimum Compensation Wage Rate.

11/22/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 12/22/2005.

051954 **[Amend the Definition of Properties Eligible to Apply for a Mills Act Contract]**

Supervisor Alioto-Pier

Ordinance amending the Administrative Code by amending Section 71.2 to expand the definition of "qualified historical properties" eligible to apply for a Mills Act contract; and making environmental findings.

12/6/05, ASSIGNED UNDER 30 DAY RULE to Budget and Finance Committee, expires on 1/5/2006.

Meeting Procedures

The Board of Supervisors is the Legislative Body of the City and County of San Francisco. The Board has several standing Committees where ordinances and resolutions are the subject of hearings at which members of the public are urged to testify. The full Board does not hold a second public hearing on measures which have been heard in committee.

Board procedures do not permit: 1) persons in the audience at a Committee meeting to vocally express support or opposition to statements by Supervisors or by other persons testifying; 2) ringing and use of cell phones, pagers, and similar sound-producing electronic devices; 3) signs to be brought into the meeting or displayed in the room; 4) standing in the meeting room.

Citizens are encouraged to testify at Committee meetings and to write letters to the Clerk of a Committee or to its members, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102.

USING LAPTOP COMPUTERS FOR PRESENTATIONS: Please contact City Hall Media Services at (415) 554-4933 to coordinate the use of laptop computers for presentations at the meeting. Computers to be used are required to be tested in advance. The presenter should arrive 30 minutes prior to the meeting to connect and test their computer.

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Requests for language interpreters at a meeting must be received at least 48 hours in advance of the meeting to help ensure availability. Contact Madeleine Licavoli at (415) 554-7722.

AVISO EN ESPAÑOL: La solicitud para un traductor en una reunion debe recibirse antes de mediodia de el viernes anterior a la reunion. Llame a Erasmo Vazquez (415) 554-4909.

翻譯 必須在會議前最少四十八小時提出要求
請電 (415) 554-7701

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The nearest accessible BART station is Civic Center (Market/Grove/Hyde Streets). Accessible MUNI Metro lines are the J, K, L, M, and N (Civic Center or Van Ness Stations). MUNI bus lines serving the area are the 47 Van Ness, 9 San Bruno, and the 6, 7, 71 Haight/Noriega. For more information about MUNI accessible services, call (415) 923-6142.

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Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City and County exist to conduct the people's business. The Sunshine Ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. For information on your rights under the Sunshine Ordinance (Chapter 67 of the San Francisco Administrative Code) or to report a violation of the ordinance, contact Frank Darby by mail to Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco CA 94102 by phone at (415) 554-7724, by fax at (415) 554-7854 or by email at sotf@sfgov.org

Citizens may obtain a free copy of the Sunshine Ordinance by contacting Mr. Darby or by printing Chapter 67 of the San Francisco Administrative Code on the Internet, at http://www.sfgov.org/sunshine

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Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [SF Campaign & Governmental Conduct Code Sec. 2.100] to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the San Francisco Ethics Commission at 30 Van Ness Avenue, Suite 3900, San Francisco, CA 94102; telephone (415) 581-2300; fax (415) 581-2317; web site www.sfgov.org/ethics

BUDGET AND FINANCE COMMITTEE
S.F. BOARD OF SUPERVISORS
CITY HALL, ROOM 244
1 DR. CARLTON GOODLETT PLACE
SAN FRANCISCO, CA 94102-4689

IMPORTANT HEARING NOTICE!!!

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 554-7642
FAX (415) 252-0461

December 8, 2005

TO: Budget and Finance Committee

FROM: Budget Analyst

SUBJECT: December 15, 2005 Budget and Finance Committee Meeting

Item 2 – File 05-1559

Department: Assessor-Recorder

Item: Ordinance amending Section 10.2-5 of the San Francisco Administrative Code to conform to Section 170 of Chapter 2.5, Part 1, Division 1 of the California Revenue and Taxation Code providing that every assessee of any taxable property located in San Francisco, or any person liable for the taxes thereon, whose property was damaged or destroyed, without his or her fault, by a misfortune or calamity, may apply for reassessment of that property; specifying the nature of the damage or destruction required to be eligible for reassessment; and also specifying that the Assessor-Recorder may initiate the reassessment where the Assessor-Recorder determines that within the preceding 12 months such taxable property located in the City was damaged or destroyed, for the purposes of providing Property Tax relief to residents of the City and County of San Francisco.

Description: The State Revenue and Taxation Code Section 170 authorizes county boards of supervisors to enact ordinances for the purpose of reassessing property damaged or destroyed by a misfortune or calamity. The San Francisco Board of Supervisors previously enacted San Francisco Administrative Code Section 10.2-5 and subsequent amendments, pursuant to Section 170 of the State Revenue and Taxation Code. The existing Administrative Code Section 10.2-5 establishes and implements a process for property owners who are liable for Property Taxes for the prior fiscal year, to apply to the Assessor-Recorder for reassessment of their property if it was damaged or destroyed, by a misfortune or calamity.

However, according to Ms. Donna Kotake of the Assessor-Recorder's Office, the Administrative Code Section 10.2-5 was last updated in December of 2000 and is not currently up to date with the most recent amendments to State Revenue and Taxation Code Section 170.

The proposed ordinance would amend the San Francisco Administrative Code Section 10.2-5 to conform to the current provisions of Section 170 of the State Revenue and Taxation Code and make minor technical changes. The proposed amendments include:

- Property Tax lien date:
  Changes from March 1st to the correct lien date of January 1st of each year.

- Time to file:
  Changes the time to file an application for reassessment from "not later than the last day of the fiscal year in which the damage occurred" to "within 12 months of when the property was damaged."

- Amount of Damage:
  Deletes the requirement that the damage be in excess of $5,000 and requires only that the application show the dollar amount of the damage.

- Eligibility:
  Describes the causes of damage or destruction to the property which make it eligible for reassessment. These include (1) a major misfortune or calamity where the Governor declares the area or region a state of disaster; or, (2) a misfortune or calamity in the case of state or federal owned land, where the damage causes the right to enter to be suspended; or, (3) a misfortune or disaster.

- Reassessment Process:
  Describes the process by which the Assessor-Recorder will appraise the property. The existing provisions of the Administrative Code require the Assessor-Recorder to reassess the property according to its full cash value immediately after the damage or destruction. The proposed amendments to the Administrative Code require the Assessor-Recorder to appraise the property and determine separately the full cash value of the land, improvements and personal

property, immediately before[1] and after the damage or destruction. If the sum of the values immediately before exceed the sum of the values after the damage by $10,000 or more, the Assessor-Recorder must separately determine the reductions in value of the land, improvements and personal property. The Assessor-Recorder must compute a percentage reduction and apply such percentage reduction to the property's assessment roll value.

- Time to Appeal:
  Changes the time an applicant is provided to appeal the Assessor-Recorder's decision to the Assessment Appeals Board from 14 days to 6 months.

- Assessor Initiated Reassessments:
  Establishes that if no application is filed to obtain a reassessment, the Assessor-Recorder may reassess property damaged or destroyed that occurred within the preceding 12-month period.

- Tax Rate and How it is Applied:
  Changes the Property Tax rate applied to property reassessed under the subject ordinance from (a) the Property Tax rate at the time of the reassessed property's original assessment; to (b) the Property Tax rate at the time of the reassessed property's misfortune or calamity and describes how it is to be applied.

- Refunding of Taxes:
  Adds an option for the refunding of Property Taxes paid in excess of the total tax due, that permits such a refund if so ordered by the Board of Supervisors without the need for the taxpayer to file a claim for refund.

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[1] According to Ms. Jean Alexander, Deputy City Attorney, per the State Board of Equalization, the value "immediately before" is determined by either using comparable sales, cost approach, or income approach which would be applied after the catastrophe.

- Restoration of Value:
  Provides for adding an annual inflation factor to the assessed value of the damaged property and increasing the base year value when the property is partially restored to its original value and again when the property is fully restored to its original value.

Comments:

1. According to Ms. Kotake, in 2002, the State Board of Equalization, which is the governing body of the Assessor's Office, recommended that the San Francisco Administration Code 10.2-5 be amended to bring it in compliance with the State Revenue and Taxation Code Section 170. The State Board of Equalization noted at the time that the City's Administrative Code Provisions had last been updated in December of 2000 but such provisions currently did not conform with the State Revenue and Taxation Code Section 170. Ms. Kotake advises that despite the recommendation, of the State Board of Equalization in 2002, Administrative Code 10.2-5 was not updated. Mr. Phil Ting, San Francisco Assessor-Recorder, states that he does not know why the Department did not update the Administrative Code in 2002 as had been recommended by the State Board of Equalization but believes it is because other issues had greater priority. Mr. Ting advises that, since taking office, he has made this a priority and is now proposing the amended ordinance to comply with Revenue and Taxation Code Section 170.

2. The proposed Amendment to the Section 10.2-5 of San Francisco's Administrative Code includes, criteria for reassessment eligibility. To be eligible for reassessment the damage or destruction to the property shall have been caused by any of the following: (a) "a major misfortune or calamity, in an area or region subsequently proclaimed by the Governor to be in a state of disaster, if that property was damaged or destroyed by the major misfortune or calamity that caused the Governor to proclaim the area or region to be in a state of disaster. As used in this paragraph, "damage" includes a diminution in the value of property as a result of restricted access to the property where that restricted access was caused by the major misfortune or calamity; (b) a misfortune or calamity; or (c)

"a misfortune or calamity that, with respect to a possessory interest in land owned by the state or federal government, has caused the permit or other right to enter upon the land to be suspended or restricted. As used in this paragraph, "misfortune or calamity" includes a drought condition such as existed in this state in 1976 and 1977."

3. According to Ms. Kotake, the last major event that qualified under Administrative Code Section 10.2-5 for property reassessment was the 1989 Loma Prieta Earthquake. Ms. Kotake advises that there have been 62 claims pertaining to this Administrative Code Section 10.2-5 during the past two years which have resulted in a downward reassessment of properties in San Francisco totaling approximately $8,827,665 with a corresponding reduction of approximately $100,988 in less Property tax revenues being paid to the City on an annual basis. Ms. Kotake advises that the vast majority of these claims have pertained to fire damage.

Recommendation: Approve the proposed ordinance.

Item 3 - File 05-1869

Note: This item was continued by the Budget and Finance Committee at its meeting of December 1, 2005.

Departments: Port Commission (Port)

Item: Resolution approving a Lease between the Port Commission and Miller Kelly Architects, Inc., a California corporation, dba MK Think, for the lease of the Roundhouse One Building located at 1500 Sansome Street, for a term of ten years and 180 days, with one option to renew for an additional five years.

Location: 1500 Sansome Street

Purpose of Lease: The proposed resolution would authorize the City and County of San Francisco, acting by and through its Port Commission, to lease the entire space in the Roundhouse One Building, located at 1500 Sansome Street, which consists of 20,237 square feet, to be used as office space by Miller Kelly Architects, Inc., dba MK Think for a period of ten years and 180 days. Presently the subject building is vacant.

Lessor: City and County of San Francisco, acting by and through its Port Commission

Lessee: Miller Kelly Architects, Inc., dba MK Think (MK Think)

Number of Square Feet and Uses of Space: 20,237 square feet of space in the Roundhouse One Building, located at 1500 Sansome Street, to be used by the lessee as general office space. MK Think is a for-profit business that provides architectural and interior design services.

Rent Payable by MK Think to the Port: Rent of approximately $23,610 or approximately $1.17 per square foot per month, which is $283,318 or $14 per square foot annually (see Comment No. 1).

Term of Lease: The term of the proposed lease agreement is for ten years and 180 days.

Right of Renewal: One, five-year option to renew.

Maintenance and Repairs: The lessee is responsible for all general maintenance and repairs, janitorial services, and utilities, as well as gross negligence and extraordinary wear and tear.

Description: The proposed resolution would approve a proposed lease agreement between the Port Commission (Port) and Miller Kelly Architects, dba MK Think ("MK Think") for 20,237 square feet of space at 1500 Sansome Street for a period of ten years and 180 days, beginning after approval by the Board of Supervisors.

According to Mr. Jeffrey Bauer of the Port, 1500 Sansome, also known as the "Roundhouse One" Building, was last occupied five years ago. Mr. Bauer advises that the proposed lease agreement between the Port and MK Think would permit MK Think to utilize the 20,237 square feet of space at 1500 Sansome for general office use and no other purpose.

Comments: 1. Mr. Bauer advises that, under the proposed lease agreement, the Port would be paid rent of $14 annually per square foot by MK Think. In addition, the Port is requiring MK Think to construct tenant improvements estimated to cost $964,627 excluding the heating, ventilation, and air conditioning (HVAC) system cited in Comment No. 2 below, as detailed in Attachment I, provided by Mr. Bauer. MK Think would also be responsible for its own janitorial and utilities costs, which Mr. Bauer estimates to be $9.00 per square foot per year. In Attachment II, Mr. Bauer states that "The rent plus the value of the tenant improvements in addition to MK Think paying for all [janitorial and utilities] expenses is equivalent to a Gross Full Service Lease at $27.77 [annually per square foot]." Neither of these costs would be paid by MK Think to the Port since MK Think would be responsible for (a) constructing the tenant improvements and (b) paying for its own janitorial and utilities costs.

Mr. Steve Legnitto of the Real Estate Division states that the base rent of $1.17 per square foot per month for this

net lease, which does not include tenant improvements and janitorial and utilities costs, represents fair market value. Mr. Bauer further advises that the Port considers gross rent of $27.77 annually per square foot, including the requested tenant improvements and janitorial and utilities costs, to be a competitive market rent. As stated by Mr. Bauer in Attachment II, "Current Northern Waterfront office market for Full Service office [including tenant improvements and janitorial and utilities] is $21 to $27 [annually per square foot]."

2. According to Mr. Bauer, the Port will give MK Think $175,000 as a one-time rent credit for the installation of the HVAC system. As shown in Attachment III provided by Mr. Bauer, installation by MK Think of such HVAC system is estimated to cost $350,000. Mr. Bauer advises that the $175,000 rent credit will be prorated on a monthly basis and may not exceed 50 percent of the total monthly rent owed by MK Think to the Port, which as stated above is approximately $23,610. Therefore, Mr. Bauer further advises that the proposed monthly rent credit provided by the Port to MK Think for installation of the HVAC system will be an amount not to exceed $11,805, for approximately 14.8 months.

3. Mr. Bauer advises that 1500 Sansome Street is a California Historic Building and that MK Think must comply with California State Law with respect to the requirements in renovation of such a historic building.

4. Mr. Bauer advises that the Roundhouse One Building was last occupied approximately in early 2000 by Information Radio, a for-profit radio business, which paid approximately $0.08 per square foot per month, which is $1.09, or approximately 93 percent, less than the proposed monthly base rent of $1.17 per square foot. Mr. Bauer further advises that, while he did not participate in the negotiations for the Port's lease agreement with Information Radio, the rent paid by Information Radio to the Port was low because Information Radio was expected to provide $3,500,000 in tenant improvements for the Roundhouse One building, although Mr. Bauer further advises that, as of the writing of this report, the Port does

not have an estimate of the total tenant improvements that were completed by Information Radio.

Recommendation: Approve the proposed resolution.

Itemized Tenant Improvements for 1500 Sansome Street - By Division

Division	Description	Cost
1	General Conditions	$89,432
2	Site Requirements	$7,000
3	Concrete	$1,500
5	Metals	$208,000
6	Wood and Plastics	$42,000
7	Thermal & Moisture Protection	$25,000
8	Doors and Windows	$49,400
9	Finishes	$92,325
10	Specialties	$8,150
11	Equipment	$14,500
12	Furnishings	$5,500
14	Conveying Systems	$10,000
15	Mechanical	$27,500
16	Electrical	$197,000
20	Schematics	$5,350
22	Fees, Contingency, and Bonds	$181,970
	TOTAL	**$964,627**

Port of San Francisco

Date: November 22, 2005

From: Jeffrey A. Bauer, Senior Leasing Manager

To: Luke H. Klipp, Office of Budget Analyst

Re: MK Think_Roundhouse One

Background

1. In 1999, Port issued RFP for a 10-year lease.
2. Port awarded 10-year lease to IN Radio, LLC.
3. IN Radio took possession in 2000 and commenced construction of $3.SM in TIs.
4. IN Radio defaulted on the lease prior to completing TIs approximately less than 75%.
5. Port eventually terminated lease with IN Radio in 2002.
6. In 2003 Port reissued an RFP resulting in only one proposal which was rejected.
7. On 6/22/04, per Resolution No. *04-52* staff was directed to pursue potential tenants through direct negotiations.
8. Direct negotiations resulted in proposal from MK Think Roundhouse One Building located at SWL 318.
9. On October 11, 2005 the San Francisco Port of San Francisco approval the MK Think Lease by Resolution 05-66;

Assumptions:

10. MK Thinks proposal is for a Net Lease which includes $14.00 per square feet, $964,627 in tenant improvements with a value to the Port of $4.77, and pick up of all expenses at $9.00 (Electrical, gas, water, sewer, janitorial, security). The rent plus the value of the tenant improvements in addition to MK Think paying for all expenses is equivalent to a Gross Full Service Lease at $27.77.
11. MK Think will receive a one time credit for a HVAC system in the amount not to exceed $175,000. This credit amortized over the 10 year term equals $0.86 annual.
12. The Gross Full Service equivalent is $27.77 less HVAC credit amortized over the 10 year term of $0.86 equal Gross Full Service Equivalent of $26.91 annual or $2.24 monthly.
13. Current Northern Waterfront office market for Full Service office is $21 to $27 annually, or $1.75 to $2.25 monthly.

MKTHINK

the IDEAS company for the built environment

23 November, 2005

The following tabulates the costs associated with the proposed rooftop mechanical system for 1500 Sansome St (Roundhouse 1).

NOVO CONSTRUCTION

Date:	11/23/05	Project:	Round House (Rooftop)
Estimator:	M. Bank	Address:	1500 Sansome San Francisco, CA
Rev. No.:	R7	Size (sq. ft.):	20,326
		Project No.	25121

CSI CODE	DESCRIPTION		QUANTITY	UNIT	UNIT COST	ROOFTOP	COMMENTS
Division 1	General Conditions						
01300	Project Manager	R	0.20	WK	3000	600.00	
01310	Project Superintendent	R	1.18	WK	3300	3,894.00	
01320	Project Engineer	R	0.26	WK	2400	624.00	
01510	Office Supplies	R	1.00	LS	100	100.00	
01530	Temporary Power Service	R	1.00	LS	350	350.00	
01570	Telephone Service	R	0.15	MO	350	52.50	
01700	Small Tools and Equipment	R	0.70	MO	350	245.00	
01710	Truck, Oil and Gas	R	1.00	MO	850	850.00	
01800	Progressive Clean-up	R	2.00	WK	350	700.00	
01810	Debris Boxes	R	0.50	EA	500	250.00	
Division 5	Metals						
05100	Structural Steel	R	1	LS	26250	26,250.00	Steel Supports for Rooftop Equipment
Division 6	Wood and Plastics						
06100	Rough Carpentry	R	1	LS	2600	2,600.00	Rooftop Carpentry
Division 7	Thermal & Moisture Protection						
07500	Membrane Roofing	R	1	LS	3400	3,400.00	
Division 15	Mechanical						
15400	Plumbing	R	1	LS	6250	6,250.00	Condensate and Make-up Water
15400	Plumbing	R	1	AL	10000	10,000.00	Allowance to bring gas up to boiler
15700	HVAC	R	1	LS	197560	197,560.00	Rooftop
Division 16	Electrical						
16100	Electrical	R	1	LS	11245	11,245.00	Power for rooftop equipment
	Subtotal					$264,970.50	
22100	Building Permit Fees	R	$264,971		0.02	5,299.41	2% Allowance (Assumes the Port will reduce their normal fee)
22200	Utility Fees	R	1	AL	20000	20,000.00	Allowance for Gas Service (We have not been able to verify with PG&E whether gas has been brought to the building)
22300	Performance Bond	R	397456		0.02	7,949.12	Bond for 150% of value
22500	General Liability Insurance Fee	R	$264,971		0.01	2,649.71	1% of Cost
22600	Contingency	R	$300,869		0.1	30,086.87	10% Contingency
22700	General Contractors Fee	R	$330,956		0.035	11,583.45	3.5% Fee
						342,539.05	

An additional $7,460.95 related to soft costs associated with architectural and structural coordination and documentation is included to bring the total estimated cost to $350,000

Respectfully,

Steven Kellley
Principal, MKThink

Pier 9, The Embarcadero, Suite 111 San Francisco, CA 94111
415 402 0888 mkthink.com

Item 4 – File 05-1789

Department: Civil Service Commission
Department of Human Resources

Item: Resolution fixing prevailing wage rates, paid in private employment in San Francisco at the rates certified to the Board of Supervisors by the Civil Service Commission on September 19, 2005 (Civil Service Commission File No. 0500-05-3), for (1) workers performing work under City contracts for public works and construction improvement projects; (2) workers performing work under City contracts for janitorial services; (3) workers in public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City; (4) workers engaged in theatrical or technical services for shows on property owned or leased by the City; and (5) workers performing moving services under City contracts at facilities owned or leased by the City.

Description: Administrative Code Sections 6.22(E), 21.25-1, 21.25-2, 21.25-3 and 21.25-x require that the Board of Supervisors annually fix and determine the prevailing rate of wages, including the rate of wages for overtime and holiday work, paid in private employment in San Francisco for work performed under the following City contracts: (1) public works and construction improvement projects; (2) janitorial services; (3) public off-street parking lots, garages, or vehicle storage facilities; (4) theatrical and technical services related to the presentation of shows; and (5) moving services.

The proposed resolution would establish the prevailing rate of wages paid in private employment which City contractors are required to pay their employees for work performed under City contracts for the types of work as listed above.

In accordance with the Administrative Code, to assist the Board of Supervisors in determining the prevailing rate of wages, the Civil Service Commission is required to furnish to the Board of Supervisors, on or before the first Monday of November of each year, relevant data as to prevailing wage rates. Administrative Code Section 6.22 states that the Board of Supervisors is not limited to the data submitted by the Civil Service Commission in determining the prevailing rate of wages, but may consider

other information on the subject, as the Board of Supervisors deems proper.

On September 22, 2005, the Civil Service Commission provided the Board of Supervisors with the following data for determining the prevailing rate of wages: (a) the General Prevailing Wage Determination Survey conducted by the Director of Industrial Relations of the State of California for construction and construction related work; (b) the contractual changes of the Collective Bargaining Agreement between the San Francisco Maintenance Contractors Association and Service Employees International Union, Building Service Employees Union, Local 1877 Division 87 in effect from August 1, 2003 through July 31, 2008, reflecting the prevailing wage rates for individuals performing janitorial services in San Francisco; (c) the Garage and Parking Lot Agreement between Parking Employers and Teamsters Automotive Employees, Local 665 in effect from December 1, 2003 until November 30, 2008, reflecting the prevailing wage rates for parking and garage attendants; (d) the International Alliance of Theatrical Stage Employees Bargaining Agreement, Local 16 in effect from August 18, 2005 through December 31, 2005, reflecting the prevailing wage rates for theatrical workers; and (e) the prevailing wage data for furniture movers and related classifications obtained from the State of California's Director of Industrial Relations.

According to Mr. Steve Ponder of the Department of Human Resources, (a) construction workers would be paid between $12.70 and $51.24 in basic hourly wages[1]; (b) janitorial workers would be paid $16.15 hourly; (c) parking lot workers would be paid $18.55 hourly; (d) theatrical workers would be paid between $25.58 and $36.41 hourly[1] and (e) workers performing moving services would be paid either $16.25 or $16.50 hourly[1] depending upon their classification, if the Civil Service recommended rates are approved by the Board of Supervisors. Mr. Ponder states that these hourly rates exclude health and welfare benefit payments, pension, and vacation and holiday pay.

Fiscal Impact: The Budget Analyst notes that the proposed legislation could affect the cost of contractor bids in an undetermined amount. However, any increased costs as a result of the

[1] Mr. Ponder explains that the ranges reflect the varying classification skills.

proposed legislation would be dependent on future contractor bids and the extent to which the requirement to pay prevailing wage rates caused the contractor bids to be higher than they otherwise would have been. Such future costs cannot be estimated at this time.

Comment: A copy of the data submitted to the Board of Supervisors by the Civil Service Commission on September 22, 2005, as to the prevailing rate of wages paid by private employers to employees performing construction, janitorial, parking, theatrical and moving services work in San Francisco is on file with the Clerk of the Board of Supervisors. A list of the occupations covered in the data submission is attached to this report.

Recommendation: Approval of the proposed resolution is a policy matter for the Board of Supervisors.

Alphabetical List of the Occupations Covered in this Prevailing Wage Determination

Asbestos Removal Worker (Laborer)
Asbestos Worker, Heat and Frost Insulator
Boilermaker-Blacksmith
Brick Tender
Bricklayer, Blocklayer
Building/Construction Inspector
Carpenter
Carpet, Linoleum
Cement Mason
Dredger (Operating Engineer)
Drywall Installer (Carpenter)
Electrical Utility Lineman
Electrician
Elevator Constructor
Field Surveyor
Glazier
Iron Worker
Janitors*
Laborer
Landscape Maintenance Laborer
Light Fixture Maintenance
Marble Finisher
Marble Setter
Modular Furniture Installer (Carpenter)
Movers*
Operating Engineer
Operating Engineer (Building Construction)
Operating Engineer (Heavy and Highway Work)
Painter
Parking and Highway Improvement Painter (Laborer)
Parking and Highway Improvement Painter (Painter)
Parking Garage Attendants*
Pile Driver (Carpenter)
Pile Driver (Operating Engineer - Building Construction)
Pile Driver (Operating Engineer - Heavy and Highway Work)
Plaster Tender
Plasterer
Plumber
Roofer
Sheet Metal Worker (HVAC)
Slurry Seal Worker
Stator Rewinder
Steel Erector and Fabtricator (Operating Engineer - Heavy & Highway Work)
Steel Erector and Fabtricator (Operating Engineer - Building Construction)
Teamster
Telecommunications Technician
Telephone Installation Worker
Terrazzo Worker
Theatrical Stage Employees*
Tile Finisher
Tile Setter
Traffic Control/Lane Closure (Laborer)

Tree Trimmer (high voltage line clearance)
Tree Trimmer (line clearance)
Tunnel Worker (Laborer)
Tunnel/Underground (Operating Engineer)
Water Well Driller

* occupational categories added at the request of the Board of Supervisors

Item 5 - File 05-1870

Department: Public Utilities Commission (PUC)

Item: Hearing to consider the release of $16,875,000 of funds reserved by the Board of Supervisors in the PUC's FY 2005-2006 budget for the Power Enterprise's capital project budget. The Power Enterprise is a division of the Hetch Hetchy Enterprise.

Amount: $16,875,000

Source of Funds: Hetch Hetchy Enterprise revenues appropriated and reserved by the Board of Supervisors in the PUC's FY 2005-2006 budget, for the Power Enterprise's capital project budget.

Description: According to Ms. Barbara Hale of the PUC, the Power Enterprise capital projects are "energy generation and efficiency projects." Ms. Hale explains that the purpose of the projects is to:

- Improve San Francisco electric reliability and air quality;
- Help San Francisco achieve its public policy goals of increasing renewable and efficiency technology investments (per the adopted Electric Resource Plan and the Mayor's Clean Energy, Clean Air Policy); and
- In the case of energy efficiency in particular, assist in lowering the electric bills of City departments.

During its consideration of the PUC's budget for FY 2005-2006, the Board of Supervisors reserved $16,875,000, or 75 percent, of the PUC's Power Enterprise capital project budget of $22,500,000 to be expended on seven Power Enterprise capital projects, as shown in the following table.

Project	Amount Appropriated	Amount Reserved
Mayor's Energy Conservation Account (MECA)[1]	$7,940,000	$7,940,000
Utility Underground Program	1,600,000	1,600,000
Electric Distribution System	250,000	250,000
Generation Metering	100,000	100,000
International Airport SCADA[2]	232,000	232,000
Electrical Reliability Power Project	11,653,000	6,193,000
MECA-Demand Reduction	560,000	560,000
Total	**$22,500,000***	**$16,875,000**

* Includes $165,000 for the Muni Streetlight Project which was not reserved.

The $16,875,000 in funds were reserved specifically for the purpose of having the PUC submit to the Budget and Finance Committee a Power Enterprise business plan, in accordance with Recommendation 1.3 contained in the Budget Analyst's December 21, 2004 *Management Audit Report of the PUC Hetch Hetchy Enterprise*[3] *Fund* (see Comment No. 1). The Budget Analyst's recommendation was approved by the Board of Supervisors Government Audit and Oversight Committee during the Committee's hearings on the Budget Analyst's management audit report.

The PUC is now requesting the release of the $16,875,000 on reserve. The PUC has submitted a Power Enterprise business plan to the Budget and Finance Committee as requested. According to the Power Enterprise Business Plan, "the scope of the business plan is to provide direction to staff and PUC management in operating the Power Enterprise, establishing its financial stability and growth opportunities, and setting its organizational structure to best support its purpose." Attachment I provided by the PUC describes the Purpose and Scope of the business plan. According to Ms. Hale, the PUC discussed the business plan at three separate public

[1] The Mayor's proposed FY 2005-2006 budget for the Mayor's Energy Conservation Account (MECA) was $7,940,000. The Board of Supervisors subsequently increased the MECA budget to $21,440,000.
[2] SCADA stands for System Control and Data Acquisition (see project description in Attachment III.)
[3] Since the December 21, 2004 *Management Audit of the PUC Hetch Hetchy Enterprise Fund*, the PUC has restructured its former Hetch Hetchy Enterprise functions into a restructured Water Enterprise and a new Power Enterprise. Therefore, Recommendations 1.1 – 1.3, which originally referred to the Hetch Hetchy Enterprise, now relate to the new Power Enterprise.

meetings and subsequently supported the General Manager's decision to submit the business plan to the Board of Supervisors.

Comments:

1. The Budget Analyst's *Management Audit of the PUC Hetch Hetchy Enterprise Fund* made the following recommendations about the PUC's failure to develop a Power Enterprise business plan:

- Recommendation 1.1: The PUC General Manager should make the finalization of a Power Enterprise business plan an early priority.
- Recommendation 1.2: The PUC General Manager should develop an ongoing Power Enterprise business planning process which incorporates a cost-of-service power rate review and performance measurement processes.
- Recommendation 1.3: The Board of Supervisors should reserve 75 percent of FY 2005-2006 capital project appropriations for the Power Enterprise until the Department transmits a Power Enterprise business plan to the Board of Supervisors (subject of this hearing).

2. The Budget Analyst notes that the PUC has submitted a Power Enterprise business plan in accordance with the Board of Supervisors request, which complies with Recommendations 1.1 and 1.3 in the Budget Analyst's management audit report, as approved by the Board of Supervisors Government Audit and Oversight Committee.

3. In terms of Recommendation 1.2, regarding the need for an ongoing Power Enterprise business planning process which incorporates a cost-of-service power rate review and performance management processes, Ms. Hale notes that the Power Enterprise business plan includes criteria by which to measure the performance of PUC Power Enterprise staff, and addresses the need for a cost-of-service power rate review. Ms. Hale explains that the cost-of-service power rate review is a two-step process: "First the PUC needs to assess the actual cost of providing power services to their City customers. Second,

the PUC needs to design rates for their customer classes[4] that collect the costs of providing power services." Ms. Hale states that the purpose of the cost-of-service power rate review is to:

- ensure that the rates charged cover the costs of providing the service, including an adequate repair and replacement program and funds for ongoing efficiency and renewable investment;
- establish greater certainty about the timing, direction, and magnitude of rate changes; and
- encourage appropriate energy efficiency investments and conservation actions.

According to Ms. Hale, PUC staff is developing a cost-of-service power rate review, and anticipates presenting their work to the Commission for approval by the end of FY 2005-2006. At that time, Ms. Hale anticipates the PUC will receive guidance on how frequently rates should be reviewed and adjusted.

4. Ms. Hale explains that the PUC anticipates updating the Power Enterprise business plan and corresponding performance measures on a 3-year cycle.

5. According to Ms. Hale, and as stated in Attachment II, "of the $16,875,000 currently on reserve, $16,315,000 is required in order to complete Power Enterprise Projects. The Enterprise, which has delayed signing contracts and encumbering funds, must avoid delay or cancellation of projects and programs."

6. Attachment III, provided by Ms. Hale, is a Power Enterprise Reserve Spending Plan and a description of the seven projects. The spending plan shows that $16,315,000 of the requested release of $16,875,000 will be encumbered by the PUC in FY 2005-2006, or $560,000 less than the total amount of $16,875,000 requested for release from reserved funds. According to Ms. Hale, the $560,000 of reserved expenditures for the MECA – Demand Reduction Project ($16,875,000 less $16,315,000)

[4] The PUC has three customer billing classifications: Enterprise (which includes the Airport, and the Port) General Fund (which includes the Recreation and Park Department and the Fire Department) and Free (which includes City Hall and the Fine Arts Museums).

was funded from previously appropriated Power Enterprise Capital project budget appropriations. Therefore, the amount of $560,000 should be returned to the unappropriated fund balance of the Hetch Hetchy Enterprise Fund.

Recommendations:

1. In accordance with Comment No. 7, instruct the Controller to return $560,000 to the unappropriated fund balance of the Hetch Hetchy Enterprise Fund.

2. Release the balance of $16,315,000 on reserve ($16,875,000 less $560,000 not needed).

Purpose and Scope

The scope of the business plan is to provide direction to staff and SF PUC management in operating the Power Enterprise, establishing its financial stability and growth opportunities, and setting its organizational structure to best support its purpose. The Business Plan will identify the changes and challenges that must be addressed for the Enterprise to succeed.

The Power Enterprise will provide reliable energy services at reasonable cost to customers, with attention to environmental effects and community concerns. Within this overall purpose are five objectives in order of priority:

1. Optimize operation of the hydroelectric generation system within the constraints of the Water-First Policy and the rights and obligations of the Raker Act.

2. Establish and implement the necessary framework (i.e., data systems and programs, load meter replacement) to improve our level of sophistication as a utility participating in the electricity market.

3. Continue to refresh the electric demand and supply plan to ensure we procure a least-cost portfolio of demand-side and generation resources responsive to a changing – and perhaps, growing – customer base.

4. Ensure the portfolio of resources is diverse, both to address environmental concerns and community objectives, and to support prudent risk management.

5. Engage with regulatory, legislative, and market stakeholders to remain apprised of changes and to protect the interests of San Francisco energy consumers.

These objectives have as a prerequisite a requirement for the Power Enterprise to supply reliable, adequate power to the City and County of San Francisco's municipal customers.

The business plan will focus efforts on meeting the Power Enterprise's near-term goals by identifying essential tasks and relative priorities. This business plan is designed to reflect the views of the staff, informed by dialogue with stakeholders, as to the viable options for the Power Enterprise and then request a ratification of the direction and priorities from the Commissioners. Thereafter, the plan can be disseminated to other key stakeholders from City Hall to current customers. With clarity as to the near-term purpose of the organization, the staff can work to optimize their efforts to achieve the desired results.

Importantly, this Business Plan is a near- to mid-term plan for the Power Enterprise; it does not chart a path to acquiring additional load, either through Community Choice Aggregation (CCA) or through some form of public power, nor does it propose a long-term energy policy. Recommendations on these issues have been ed separately. A CCA Implementation Plan was submitted to the Board of Supervisors on April 27, 2005.

WATER
HETCH HETCHY
WATER & POWER
CLEAN WATER

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

1155 Market Street, 4th Floor, San Francisco, CA 94103 • Tel. (415) 554-2483 • Fax (415) 554-3280 • TTY (415) 554.3488

Date: December 1, 2005

To: Harvey Rose
Budget Analyst

From: Barbara Hale
Assistant General Manager for Power

Subject: Release of Funds on Reserve for Power Enterprise

During the FY 2005-06 budget process, the Board of Supervisors placed a portion of the Power Enterprise capital budget on reserve pending a clear business vision for the future, and a forum for deciding on major policy and planning options. The Power Enterprise has complied with the mandate through strategic planning which resulted in the production of its business plan.

Please find attached the fiscal year 2005-06 reserve spending plan for the capital dollars authorized for expenditure by the Power Enterprise. Of the $16,875,000 currently on reserve, $16,315,000 is required in order to complete Power Enterprise projects. The Enterprise, which has delayed signing contracts and encumbering funds, must avoid delay or cancellation of projects and programs.

The reserve will fund the following projects:

- Master MECA, support for Mayor Newsom's Executive Directive on Energy Conservation
- Utility Underground Program
- Electric Distribution System
- Generation Metering
- SF International Airport SCADA
- Electricity Reliability Project

I am happy to continue to work through with you any questions you have regarding this request for release of the capital funds reserve.

Thank you.

Power Enterprise Reserve Spending Plan
SPENDING PLAN FISCAL YEAR 2005/2006

	PROJECT TITLE	ALLOCATION OF RESERVE	CUMBERANCE OF RESERVE ALLOCATION BY QUART FY 05-06 1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	TOTAL ENCUMBERANCE OF RESERVE ALLOCATION FY 05-06	BALANCE OF RESERVE ALLOCATION
1	Mayor's Enery Conservation Account (MECA)	7,940,000			400,000	7,540,000	7,940,000	0
2	Utility Underground Program	1,600,000	-	-	800,000	800,000	1,600,000	0
3	Electric Distribution System	250,000	-	-	125,000	125,000	250,000	0
4	Generation Metering	100,000	-	-	60,000	40,000	100,000	0
5	International Airport SCADA	232,000	-	-	232,000	-	232,000	0
6	Electric Reliability Project	6,193,000	-	-	1,135,201	5,057,799	6,193,000	0
7	MECA - Demand Reduction SFPUC	560,000	-	-	-	-	-	560,000
	TOTAL:	$16,875,000					16,315,000	560,000

PROJECT DESCRIPTIONS

(1) MECA is a holding account. Funds are allocated from this account to individual projects as projects are developed and funded. MECA includes support for Mayor's Executive Orders on Energy Efficiency and Solar Installations.

(2) This project is for the installation of streetlights in conjunction with the Utility Undergrounding Program. Utilities will also be laid underground in certain neighborhoods where overhead lines create problems for street access by large emergency vehicles such as fire trucks, or for property value enhancement.

(3) This project provides funding for replacement and repair of existing port high voltage equipment including transformers, switchgear, cable and other infrastructure. Current equipment has exceeded its operational life which poses a risk of unplanned outages and reduced electrical system reliability.

(4) This project will replace, maintain, repair, and calibrate the meters used at all Hetch Hetchy Powerhouses to ensure accuracy of monitoring of power generation and allocation used for Districts (MID/TID) and PG&E contractual settlements.

(5) Funding is for building materials and supplies needed for San Francisco International Airport substation SCADA and other municipal loads. This will be used to install a new control station that would isolate City owned equipment from PG&E. This would reduce liability based on interactions with local utility and its operating system.

(6) Completion of licensing, permitting, preliminery design, interconnection design, soils remediation, contracting, power purchase agreement development and land agreements for two combustion turbine facilities. Three turbines will be in San Francisco on a 4 acre parcel. One will be at the San Francisco Airport on a 2 acre parcel. The project will provide the City with electric reliability, peaking power of 200 MW, and the ability to facilitate the closure of the Protrero Power Plant and three peaker facilities.

(7) This project enabled CCSF department participation in the California Power Authority Demand Reserves Partnership program in Summer of 2005.

Item 6 - File 05-1923

Department: Municipal Transportation Agency (MTA)
Municipal Railway (Muni)
San Francisco County Transportation Authority (SFCTA)
California Transportation Commission (CTC)

Item: Resolution authorizing the City and County of San Francisco, through its Municipal Transportation Agency, to borrow, interest-free, $22,570,000 of Proposition K Sales Tax Revenues from the San Francisco County Transportation Authority to provide Muni with needed funds for the Muni Metro East Maintenance and Operations Facility Project in advance of Muni receiving anticipated State Transportation Improvement Program (STIP) grant funds.

Amount: $22,570,000

Source of Funds: Proposition K Sales Tax Revenues[1] to be repaid from State Transportation Improvement Program (STIP) grant funds anticipated to be allocated to the MTA in FY 2007-2008 (see Comment No. 1).

Description: According to Ms. Monique Webster of the Municipal Transportation Authority (MTA), the Muni Metro East Maintenance and Operations Facility will provide storage and maintenance of light rail vehicles serving the new Muni Third Street Light Rail line and relieve the crowded conditions at the Metro Green/Geneva maintenance facility. A description of the Muni Metro East Maintenance and Operations Facility Project is contained in Attachment I, provided by Ms. Webster.

The total project budget for the Muni Metro East Maintenance and Operations Facility, as shown in Attachment II, submitted by Ms. Webster, is $192,852,280, of which $56,428,471 has been expended as of December 1, 2005. Attachment III, submitted by Ms. Webster, contains the funding sources for the projected

[1] Proposition K Sales Tax Revenues are revenues from a $0.005 (one half cent) local sales tax that funds transportation improvements previously authorized by Proposition B of 1989 and reauthorized by Proposition K in November of 2003.

$192,852,280 cost of the Muni Metro East Maintenance and Operations Facility project. Attachment III shows that the funding sources include an extensive array of local, State and Federal sources, including $22,570,000 in State Transportation Improvement Program (STIP) grant funds (listed in Attachment III as "State Regional Improvement Program").

According to Ms. Webster, the original funding plan for the Muni Metro East Maintenance and Operations Facility Project included $22,570,000 which Muni anticipated to receive from the State in STIP grant funds, which were to be available in FY 2003-2004. However, according to Ms. Webster, as a result of State budgetary problems, the California Transportation Commission (CTC) revised the State's allocation of STIP grant funds programmed for the Muni Metro East Maintenance and Operations Facility, resulting in a delay in the State funding allocation to Muni from FY 2003-2004 to FY 2007-2008.

In order to prevent construction delays to the Muni Metro East Maintenance and Operations Facility Project, the CTC approved an "AB3090 Project Reimbursement Agreement"[2] between the State and the MTA on July 8, 2004, which allows the City, through the MTA, to use local funds for construction of the Muni Metro East Maintenance and Operations Facility Project at an earlier date than presently programmed in the STIP, and to receive reimbursement by the State when the State's STIP funds become available in the future (see Comment No. 1).

Under a written agreement between the San Francisco County Transportation Authority (SFCTA) and MTA, the SFCTA has agreed to loan the source of local funds allowed by the AB3090 Project Reimbursement Agreement and advance the MTA $22,570,000 from local Proposition K Sales Tax Revenues, interest-free. This proposed resolution authorizes the City, through the

[2] Through entering into an "AB3090 Project Reimbursement Agreement" with the State, a regional agency may, through the use of its own funds, advance-fund a component of a STIP project with later repayment by the State.

MTA, to borrow, interest-free, the $22,570,000 from Proposition K Sales Tax Revenues in advance of receiving the anticipated State STIP grant funds.

According to the agreement between the SFCTA and the MTA, should the MTA not receive the $22,570,000 reimbursement in STIP funds from the State by June 30, 2008, MTA is required to submit to the SFCTA, no later than June 30, 2008, a loan repayment plan to reimburse the $22,570,000 in borrowed Proposition K Sales Tax Revenues. The loan repayment plan can include Proposition K Sales Tax Revenues allocated to Muni and programmed for other project(s) in the "Facilities" category of the Proposition K Strategic Plan, future AB3090 Reimbursement Funds, or monies from other Muni funding sources (see Comment Nos. 2 and 3).

Comments:

1. As previously noted, the State is to provide Muni in FY 2007-2008 with $22,570,000 in STIP grant funds for the Muni Metro East Maintenance and Operations Facility Project. However, Ms. Webster notes that it is possible that the MTA may not receive the $22,570,000 in STIP grant funds as anticipated.

Specifically, Ms. Webster stated:

"At its meeting on September 29, 2005, the CTC adopted a policy document that gives highest priority to funding AB3090 cash reimbursement projects such as this one. At the same meeting, the CTC adopted a fund estimate for the STIP through 2011 that lists the reimbursement for this project remaining in FY 2007-2008 and not subject to any delay. Absolute guarantees in the capital funding world are rare, so this is as good an assurance as possible at this point in time."

Therefore, the Budget Analyst notes that the pending allocation of the $22,570,000 in State STIP grant funds, together with the timing that such funds would be received by the MTA, is uncertain.

2. According to Ms. Robin Reitzes of the City Attorney's Office, in the event that the $22,570,000 in State STIP grant funds for the Muni Metro East

Maintenance and Operations Facility Project are not received from the State by the MTA by June 30, 2008, the MTA may not use any monies from the City's General Fund to fulfill its loan repayment obligation to the SFCTA. According to the agreement between the SFCTA and MTA, the MTA cannot include Muni operating funds in its repayment plan to the SFCTA because such funds are comingled with the City's General Fund transfers to Muni. However, as previously noted, the loan repayment plan can include Proposition K Sales Tax Revenues allocated to Muni and programmed for other project(s) in the "Facilities" category of the Proposition K Strategic Plan, future AB3090 Reimbursement Funds, or monies from other Muni funding sources.

3. As previously noted, the MTA's loan repayment plan to SFCTA can include Proposition K Sales Tax Funds allocated to Muni and programmed for other project(s) in the "Facilities" category of the Proposition K Strategic Plan. Attachment IV, provided by Ms. Webster, is a list of five Muni facility projects that are currently programmed to be funded by Proposition K Sales Tax Revenues for FY 2006-2007 through FY 2008-2009. These five projects total $26,366,933 in Proposition K Sales Tax Revenues.

4. The construction contract for the Muni Metro East Maintenance and Operations Facility project was awarded to Stacy and Witbeck, Inc. on July 19, 2005. In order to begin project construction before the oncoming rainy season, according to Ms. Webster, Muni issued a Notice to Proceed to Stacy and Witbeck, Inc. to begin work on August 22, 2005. As shown in Attachment II, the construction contract is budgeted at $120,000,000, of which $3,035,650 has been expended to date.

5. According to Ms. Webster, approval of the proposed resolution by the Board of Supervisors authorizing the MTA to borrow $22,570,000 in Proposition K Sales Tax Revenues is required by January of 2006 in order for the Muni Metro East Maintenance and Operations Facility construction to remain on schedule.

Recommendation: Approval of the proposed resolution is a policy matter for the Board of Supervisors.

BOARD OF SUPERVISORS
BUDGET ANALYST

Project Description

Muni Metro East Maintenance and Operation Facility

Construction of a new Metro East Operating and Maintenance Facility on approximately 13 acres of a 17-acre site at 25^{th} and Illinois Streets. This facility will store, maintain and support the operation of light rail vehicles, accommodating over 80 light rail vehicles. The facility will consist of a two-story main shop and administration building, power substations, a light rail vehicle storage yard, and an on-site parking lot that accommodates 170 vehicles. The Metro East Operating and Maintenance Facility is needed as a direct result of the new Third Street rail alignment, which adds substantial light rail service to the City. This facility alleviates the overcrowded conditions at Muni's only other maintenance and repair facility for light rail vehicles at the Metro Green/Geneva Facility. Construction of the facility is scheduled to be completed in May 2008.

Third Street Light Rail - Muni Metro East Facility
PROJECT BUDGET

Phase	Budget	Expenditures to date
Environmental Studies & Permits	2,801,676	2,801,676
Preliminary Studies & Engineering	11,648,886	11,648,886
Land Acquisition	25,700,000	25,700,000
Construction		
Soils Improvement Contract	3,927,684	3,927,684
Pile Driving Contract	4,680,154	4,680,154
Construction Contract	120,000,000	3,035,650
Other City Departments	843,880	-
Contingency	9,400,000	-
Construction Management/Support	13,850,000	4,634,421
TOTAL	192,852,280	56,428,471

Attachment III

Third Street Light Rail - Muni Metro East Facility

PROJECT FUNDING

Fund Source	Through: FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	Future	TOTAL
State							
TCI/PTA							-
AB 973 (Prop. 108)							-
Prop 116							-
Traffic Congestion Relief Program		-	-	-	-	-	-
State/Local Partnership Program							-
TSM (CMAQ)							-
ISTEA/TEA-21 (STP)	16,500,000	-	-	-	-	-	16,500,000
State Highway Account							-
Other (Specify Source)							-
State Regional Improvement Program (RIP) (AB3090 Reimbursement)		-	-	-	-	22,570,000	22,570,000
Local							
Proposition B/K Sales Tax	79,956,160	-	489,000	1,400,000	6,692,495	-	88,537,655
Proposition B/K Sales Tax (AB3090 Reimbursement)		-		22,570,000	-	(22,570,000)	-
San Francisco Municipal Railway Improvement Corp (SFMRIC)	725,000	-	-	-	-	-	725,000
Transit Impact Developers Fee (TIDF)	179,032	-	-	-	-	-	179,032
Regional Measure 2		-	11,000,000	19,000,000	-	-	30,000,000
Federal							
FTA Section 5309-FG	1,093,110	21,626,307		940,586	-	-	23,660,003
FTA Section 5307					3,500,000	4,680,590	8,180,590
Federal Congestion Mangement and Air Quality Program (CMAQ)	2,500,000	-	-	-	-	-	2,500,000
TOTALS	100,953,302	21,626,307	11,489,000	43,910,586	10,192,495	4,680,590	192,852,280

Prop K Funds Programmed to Muni: FY07-09
Facilities Category

PROJECT NAME	YEAR	AMOUNT
Flynn Ventilation System & Roof	2007	$5,357,400
Green Roof/HVAC Rehabilitation	2007	$646,668
Islais Creek Facility	2007	$17,721,564
Woods-Fuel, Wash & Lifts	2007	$1,592,236
Facility Safety Mods	2007	$1,049,065
		$26,366,933

Item 7 - File 05-0916

Note: This item was continued by the Budget and Finance Committee at its meeting of December 1, 2005. According to the Office of the Sponsor, an amendment to the resolution will be introduced at the Committee's meeting of December 15, 2005. The Budget Analyst notes that this report is based on information and timelines submitted in September of 2005 and, therefore, reflect the Budget Analyst's analysis at that time.

Departments: Public Utilities Commission (PUC)
Department of the Environment (ENV)
Local Agency Formation Commission (LAFCO)

Item: A resolution submitting LAFCO Policy and Program Recommendations for a Community Choice Aggregation (CCA) Program and approving a CCA Implementation Plan.

Background: On May 11, 2004 the Board of Supervisors approved an ordinance establishing a Community Choice Aggregation (CCA) Program to purchase electrical power directly for San Francisco residents and businesses and to accelerate renewable energy, conservation, and energy efficiency programs (Ordinance 0086-04). This ordinance required the PUC and ENV to jointly prepare and submit a CCA Implementation Plan (IP) to the Local Agency Formation Commission (LAFCO). AB 117, the State legislation enabling municipalities in California to become community choice aggregators, outlines what must be included in such an IP for submittal to the California Public Utilities Commission (California PUC). The California PUC then reviews and certifies the IP, thus allowing the City to begin purchasing power on behalf of its residents and businesses.

The PUC and ENV submitted a draft IP to LAFCO on April 27, 2005, as required by Ordinance 0086-04, and Local Power, a non-profit organization, submitted a draft IP to LAFCO in April of 2005. On May 13, 2005, LAFCO accepted and transmitted Local Power's draft IP, as amended by LAFCO, to the Board of Supervisors (File 05-0916). Following the transmittal to the Board of Supervisors of Local Power's draft IP, LAFCO held a series of hearings during the months of June, July, and August of 2005 to resolve the differences between Local Power's draft IP and the PUC/ENV draft IP. The product of these hearings was a resolution submitting LAFCO's policy and program recommendations for the City's CCA Program to the Board of Supervisors (File 05-1417).

On September 15, 2005 the Budget and Finance Committee heard both of these CCA resolutions (Files 05-0916 and 05-1417). The Committee requested that these two files be merged into the proposed subject resolution (see Comments Nos. 1 and 2).

One-Time Start-Up Costs:

As further described below, the total one-time start-up costs for the implementation of a CCA Program are currently estimated to be between $8,871,316 and $12,100,948. This amount represents the estimated costs to be incurred by the City prior to revenues from power sales being realized by the City. Potential sources of funds to pay for these proposed one-time start-up costs are described in a later section of this report.

The Budget Analyst notes that there are a number of fundamental issues related to the CCA Program's governance and functions that have yet to be decided. These issues may have a significant impact on the budget for CCA implementation, and are described further in Comments Nos. 1, 2 and 3. Therefore, the Budget Analyst has included recommendations at the end of this report that the Board of Supervisors amend the subject resolution in order to clarify these issues.

At the September 15, 2005 Budget and Finance Committee meeting, Local Power submitted a budget containing the estimated one-time start-up costs to implement its draft IP. Attachment VI, submitted by Mr. Paul Fenn of Local Power, summarizes this budget. Table 1 below, compiled by the Budget Analyst and based on information in Attachment VI, shows that the one-time, start-up costs of the CCA Program implementation would be $12,100,948.[1]

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[1] Note that this total budget figure and the figures in Table 1 differ somewhat from Local Power's proposed program budget presented in the September 15, 2005 Budget and Finance Committee. The Budget Analyst requested information from Mr. Fenn supporting Local Power's proposed program budget that was presented on September 15, 2005. When such information was submitted to the Budget Analyst on Friday, September 23, 2005, the budgeted amounts differed somewhat from the data previously presented to the Budget and Finance Committee.

Table 1: Summary of Local Power's Proposed One-Time Start-Up Budget for the CCA Program

Phase	Work to be Done by Program Director (see Comment No. 1)	Work to be Done by PUC *	Total Budget
Start-Up	$ 508,536	$ 207,788	$ 716,324
Program Development	1,653,372	1,976,016	3,629,388
Procurement	2,370,312	1,122,377	3,492,689
Basic Service Implementation	1,628,160	2,634,387	4,262,547
Total	**$6,160,380**	**$ 5,940,568**	**$12,100,948**

* Note that this is Local Power's proposed budget for the work to be done by the PUC, and the above figures have not been generated or analyzed by the PUC. The Budget Analyst also notes that the annual salaries used to generate the budget amounts for PUC staff work are based on the City's Annual Salary Ordinance. According to Mr. Fenn, the compensation rates for the work done by the Program Director are based on the current market rates for comparable work.

The Budget Analyst also requested the PUC to provide a detailed CCA implementation budget based upon the policy and program recommendations contained in the subject resolution. The following Table 2, compiled by the Budget Analyst, based on information provided by PUC Power Enterprise staff, summarizes the PUC's preliminary proposed one-time start-up budget for a CCA Program.

Table 2: Summary of PUC's Preliminary One-Time Start-Up Budget for the CCA Program (Based on LAFCO Policy and Program Recommendations)

Activity	Estimated Cost
Implementation Plan Finalization*	$ 240,000
Customer Data Updates*	10,000
Request for Proposals*	150,000
Customer Call Center	250,000
PG&E Service Fees**	838,508
Communications Budget	4,350,000
Upgrades to Customer Care Center Facilities	750,000
Subtotal	$6,588,508
Minimum Start-Up Staffing ***	2,282,808
Total at 50% Staffing Cost	**$8,871,316**
Maximum Start-Up Staffing ***	3,424,213
Total at 75% Staffing Cost	**$10,012,721**

*These items are all currently funded in FY 2005-2006, for a total of $400,000 in professional services contracts.
** According to Mr. Joe Como from the City Attorney's Office, this amount may change as a result of forthcoming decisions to be made by the California PUC (docket R.03-10-003).
*** The PUC's proposed program budget assumes hiring 27 FTEs for the implementation of the CCA Program, the majority of which will be required prior to full implementation in the "staffing up" period. However, PUC Power Enterprise staff state that because it is still too early to precisely calculate how much in advance of full implementation each FTE will be needed and because of the many unknowns related to the CCA implementation timeline, the PUC provided two preliminary start-up staffing estimates, ranging between $2,282,808 to $3,424,213. PUC Power Enterprise staff advise that the second estimate includes staffing for energy efficiency and marketing efforts. Attachment V provides a fuller discussion of the start-up costs for staffing, including the assumptions behind them.

As shown in Table 2 above, the total estimated costs for CCA implementation, as proposed by the PUC, would be between $8,871,316 and $10,012,721. Also as noted in the footnote to Table 2, the PUC's proposed budget includes $400,000 in funds that were previously appropriated by the PUC for CCA in FY 2005-2006. Therefore, the additional new funding required to implement the PUC's proposed program budget is between $8,471,316 and $9,612,721.

PUC Power Enterprise staff provided the following supporting documentation related to the PUC's preliminary proposed CCA Program budget:

(a) Attachment I includes a summary of estimated one-time activities and costs (excluding staffing);
(b) Attachment II includes start-up costs (including start-up staffing costs and customer call center upgrade costs);
(c) Attachment III includes a more detailed estimate of the communications budget included in Attachment I;
(d) Attachment IV includes the PUC's FY 2005-2006 budget and expenditure plan for CCA; and,
(e) Attachment V includes an accompanying memo further describing Attachments I, II , III and IV.

Attachment V states that the PUC has assumed funding for energy efficiency marketing efforts which will be obtained externally[2] of the CCA Program's budget, and therefore, these costs are not included in the PUC's proposed budget. According to Attachment V, if the final IP requires significant energy efficiency marketing efforts directed at individual customers without a source of external funding, it would result in start-up staffing costs significantly higher than those presented in Table 2 above. The PUC's table at the bottom of Attachment II estimates these energy efficiency marketing costs to be $4,707,614 on an annual basis, representing 29 FTEs. The Budget Analyst notes that this is a significant omission from the PUC's proposed CCA Program budget. These energy efficiency marketing costs should be included in the PUC's total proposed CCA Program budget if the PUC believes that these functions would be necessary.

The Budget Analyst notes that the PUC's proposed budget also does not include consideration for costs associated with office space for new PUC staff. In response to Budget Analyst inquiries regarding benchmarks or analyses for the PUC's staffing allocations, PUC Power Enterprise staff advise that the

[2] Attachment V states that a potential external source of funding for energy efficiency marketing efforts would be from "Public Goods Surcharge" monies currently paid by San Francisco ratepayers to PG&E.

PUC's consultant, the Structure Group, provided staffing recommendations, based on similar work which the consultant has performed for electricity service providers in other parts of the country.

Comparing the PUC and Local Power Proposed One-Time Start-Up Costs:

The proposed budgets from Local Power and the PUC are relatively similar in magnitude. Whereas Local Power's proposed CCA program budget is $12,100,948, the PUC's preliminary proposed budget ranges between $8,871,316 and $10,012,721 (not including the value of existing PUC staff working on CCA implementation during FY 2005-2006).

The Budget Analyst notes that the budgets proposed by Local Power and PUC have significant differences. These two reported budgets assume different governance structures, have different staffing plans, utilize different timelines, and allocate different amounts of time and resources to the program functions (see Comments Nos. 1 and 2).

Program Activities - The Budget Analyst notes that some of the tasks/activities are only found in one of the two proposed budgets, and each budget bundles and names the implementation tasks and program activities differently. As a result, a comparison of these two budgets is exceedingly problematic.

The following Table 3, compiled by the Budget Analyst, from data provided by Mr. Fenn, and from Attachments I and II, summarizes three of the significant differences in estimated costs between the Local Power and PUC budgets for the performance of comparable program activities:

Table 3: Examples of Differences Between Budgeted Amounts for the Performance of CCA Program Activities

Start-Up / One-Time Activity	PUC's Proposed Budget	Local Power's Proposed Budget*
Communications and Marketing	$4,350,000	$2,126,320
IP Finalization	240,000	153,756
RFI/RFQ/RFP Preparation	150,000	1,318,752

*As previously noted, the Local Power's proposed CCA Program budget divides the total budgeted amount, which is shown in Table 1, into a budget for the PUC and a budget for the Program Director. These subtotals are not reflected in the Table 3 for simplicity's sake.

Notably, as shown in Table 3, and according to Mr. Fenn, whereas Local Power's proposed budget calls for $2,126,320 to be expended for communications/opt out notifications[3] and marketing, the PUC's proposed communications budget provides for $4,350,000 (see Table 2). According to PUC Communications staff, the communications budget for CCA needs $4,350,000 because the financial success of the CCA Program will rely a great deal on clearly communicating to customers the details of the CCA Program, so as to decrease customers opting-out of the CCA Program based on lack of information about it. Attachment III provides more detail related to the PUC's proposed communications budget.

PUC Power Enterprise staff advise that some of the activities listed in the Local Power proposed program budget details that are not explicitly broken down in the PUC's proposed budget details (such as the development of financial management systems and the development, as needed, of a low income assistance program) are nevertheless extremely useful and should be incorporated into the final CCA Program IP.

Staffing - Attachment VII, compiled by the Budget Analyst with information provided by Mr. Fenn, details Local Power's proposed preliminary start-up staffing plan for CCA Program. As noted above, Attachment II

[3] According to State law, a CCA must provide all potential customers four notices providing them the opportunity to "opt out" of getting their electricity from the City's CCA.

shows the PUC's proposed preliminary start-up staffing for the CCA Program. Attachment II shows that the PUC's proposed budget includes 27 staff positions for CCA Program start-up, whereas Attachment VII shows that Local Power's budget includes 44 staff positions, 23 in the Program Director and 21 in the PUC. The Budget Analyst notes, however, that the 23 positions that are part of the Program Director budget will not be City staff positions. Therefore, PUC's preliminary budget includes 17 fewer (44 less 27) total staff positions and 6 more (27 less 21) PUC staff positions than Local Power's proposed budget. As previously noted, the PUC's proposed staffing plan does not include the 29 positions that would be potentially hired for energy efficiency marketing purposes.

In addition to the significant differences between the staffing numbers of the budgets proposed by Local Power and the PUC, there are significant differences between the functions these staff would perform. The PUC's proposed staffing plan includes staff that would be in charge of the customer service and call center functions. Local Power's draft IP and proposed staffing plan does not include these functions, which are assumed to be contracted out.

In Attachment X, a memorandum submitted by Mr. Fenn in response to the October 13, 2005 Budget Analyst report for the subject resolution, Mr. Fenn disputes this statement and maintains that the Local Power draft IP and proposed budget do include customer service and call center staff. However, the Budget Analyst finds that the Local Power staffing for these functions includes only two positions (one Marketing/Communications Manager and one Marketing/Communications Specialist) budgeted to work for a full-time amount equivalent to 12 weeks. The Budget Analyst notes that this level of staffing can not be reasonably considered an in-house customer service and call center like the one being proposed by the PUC. Local Power's proposed budget is significantly different from the PUC's proposed budget for these functions, which includes $750,000 for upgrades to PUC's existing customer call center facilities and a budget for staff including 9 customer care representatives, 1 customer

service manager, 2 customer care center supervisors, 1 opt-out supervisor, and 3 opt-out clerks, as shown in Attachment II.

PUC Power Enterprise staff state that the customer service and call center function should be performed in an in-house civil service capacity because the PUC believes that the "public face" of CCA and a sense of City accountability are important to the success of the CCA Program. PUC Power Enterprise staff explained that this sense of public accountability is initially the responsibility of the customer service function during the marketing and opt-out phase of implementation, and, therefore, the PUC plans to incorporate the customer service and call center functions in-house. However, the PUC Power Enterprise staff also stated that they are preparing for any unforeseen needs related to customer care and call center functions by including a contingency of $250,000 in the proposed CCA program budget for such purposes, which could be used for professional services contracts to augment PUC staffing.

Implementation Timeline - In addition to having very different budget descriptions, activities, and staffing plans, the two proposed program budgets also employ significantly different assumptions about the implementation schedule and order of implementation activities. The Budget Analyst requested the PUC to provide a CCA Program implementation schedule based upon the policy and program recommendations contained in the subject resolution. Attachment VIII, provided by PUC Power Enterprise staff, is the PUC's proposed timeline for the implementation of CCA. As shown in Attachment VIII, the PUC's proposed implementation timeline begins in October of 2005 and ending with service provision in June to August of 2007. The PUC Power Enterprise staff advises that delays, such as delays in a decision regarding the CCA Program's governance structure and funding mechanism, will create commensurate delays in its timeline.

Local Power's proposed program budget includes a timeline for the implementation of the CCA Program, which is included as Attachment IX to this report. As

shown in Attachment IX, the Local Power Program Budget implementation timeline is broken down into four phases, beginning in November of 2005 and ending with service provision in April of 2007.

One notable difference in the two timelines is the timing of the Request for Information (RFI) and Request for Qualifications (RFQ) (see Comment No. 4 below). According to PUC Power Enterprise staff, the PUC wishes to initiate the RFI/RFQ process as soon as possible because many unknowns about the structure and viability of the CCA Program will likely be answered through responses the PUC receives to the RFI/RFQ. The PUC's proposed timeline in Attachment VIII circulates the RFI/RFQ to energy suppliers in December of 2005. The Local Power implementation timeline has the RFI/RFQ being issued in late March of 2006.

Costs in FY 2005-2006 - According to the PUC's proposed budget, the City will not incur any additional costs in the current fiscal year by approving the subject resolution. Attachment IV, submitted by PUC Power Enterprise staff, shows the PUC's FY 2005-2006 budget for CCA-related activities, including 3.63 FTEs and $400,000 in professional services contracts. According to Attachment IV, $1,315,668 is budgeted from the net operating revenues of the Hetch Hetchy Enterprise Fund for CCA-related activities in FY 2005-2006. Attachment IV also shows the PUC has expended $228,917 to date of the $1,315,668 total. The same Attachment provides a PUC expenditure plan for the remaining $1,086,751 ($255,417 plus $453,917 plus $377,417). PUC Power Enterprise staff advise that the PUC does not anticipate needing any supplemental funding in FY 2005-2006 to continue the PUC's proposed progress toward CCA implementation. However, the Budget Analyst questions whether the PUC has the staffing capacity to complete all of its proposed FY 2005-2006 activities with its current level of staffing, given that the PUC proposes staffing up to 27 positions (or 56 positions, including the 29 energy efficiency marketing positions noted above which have been omitted from the PUC proposed CCA Program budget) in FY 2006-2007 and yet currently only has 3.63 FTEs budgeted.

Although the approval of the proposed subject resolution does not mandate the expenditure of additional funding in the current fiscal year, if the final IP utilizes Local Power's proposed program budget, governance structure, and implementation timeline (see Comments Nos. 1 and 2), then additional funding will be needed in the current fiscal year. Local Power's proposed program budget has the City completing the Start-Up Phase, Program Development Phase and the RFQ/RFI and RFP portions of the Procurement Phase by approximately the end of FY 2005-2006, at a total cost of approximately $5,570,915.

As previously mentioned and as shown in Attachment IV, the PUC has an unexpended FY 2005-2006 staffing and professional services budget of $1,086,751 ($1,315,668 less $228,917) as of the end of the first quarter of the Fiscal Year, or as of October 1, 2005. The Budget Analyst notes that, if the PUC were to use all of the remaining FY 2005-2006 budgeted CCA amount for implementing Local Power's proposed program budget according to the timeline specified, a supplemental appropriation of $4,484,164 ($5,570,915 less $1,086,751) would be required in FY 2005-2006 to implement the Local Power draft IP.

Costs in FY 2006-2007 and Beyond - The Budget Analyst notes that, in both the Local Power and PUC budgets described above, significant new funds will be required in FY 2006-2007 to cover the start-up and one-time costs of implementing the CCA Program. Local Power's proposed implementation timeline ends in April of 2007, whereas the PUC timeline ends in June to August of 2007, as shown in Attachments VIII and IX. Therefore, the PUC's proposed timeline, and not Local Power's, would have one-time start-up expenses incurring in FY 2007-2008 as well as in FY 2006-2007.

The following Table 4 summarizes the new funding that would be required to pay for the anticipated one-time start-up costs in the two proposed budgets for the CCA Program.

Table 4: New Funds Required for One-Time Start-Up Costs

	PUC's Proposed Budget	Local Power's Proposed Budget
FY 2005-2006	$0 *	$4,484,164 **
Some of activities paid for by proposed budget	IP finalization, circulation of RFI/RFQ and RFP (currently budgeted in FY 2005-2006)	IP finalization, develop program elements, circulation of RFI/RFQ and RFP, development of conservation measures
FY 2006-2007 and beyond	$8,471,316 to $9,612,721	$6,530,033
Some of activities paid for by proposed budget	Evaluation of bids, award of contract, communications and marketing, opt-out processing	Evaluation of bids, award of contract, communications and marketing, opt-out processing, financial management system, Proposition H bond issuance

* Note that the PUC's budgeted expenses for FY 2005-2006 are not included in Table 4 because these funds have been previously appropriated for FY 2005-2006, and, as previously noted, the PUC claims that it will not require any additional funding in FY 2005-2006 to continue its proposed start-up CCA activities in FY 2005-2006.
** Assumes the inclusion of unexpended PUC FY 2005-2006 staffing and professional services budget of $1,086,751.

Funding Sources For One-Time Start-Up Costs:

The Budget Analyst requested that the PUC identify potential funding sources which the City could utilize to pay for the one-time start-up costs of a CCA Program. According to PUC Power Enterprise staff, and as further explained in Attachment V, the PUC foresees three potential funding mechanisms for the one-time and start-up costs for the PUC's proposed CCA Program. They are:

(a) **Hetch Hetchy Enterprise Net Operating Revenues** – The existing FY 2005-2006 PUC budget for CCA work is paid for with Hetch Hetchy Power Enterprise Net Operating Revenues. These revenues are derived from the sale of electricity to wholesale customers and City departments minus expenditures for the provision of electric services. The total FY 2005-2006 operating budget for the Hetch Hetchy Power Enterprise is $109,734,558.

If the Board of Supervisors chooses to use that funding source, the Board could make arrangements

to repay the amount taken from the Hetch Hetchy Enterprise Fund using net CCA operating revenues to be realized from surcharges charged to ratepayers. In such a scenario, the City could amortize the payments over several years to soften the impact on ratepayers. However, the Budget Analyst notes that, as of the writing of this report, it is uncertain as to whether the revenues realized from electricity rates will be sufficient to repay Hetch Hetchy.

The Budget Analyst notes that the Board of Supervisors does not have sole jurisdiction over the Hetch Hetchy Power Enterprise Net Operating Revenues, but, rather, the PUC must first approve the use of this funding source during its annual budget process. Therefore, it is unclear if this funding source would be made available by the PUC.

(b) **General Fund Revenues** – If the Board of Supervisors wishes to fund some of the CCA Program one-time start-up costs in FY 2005-2006, the Board could appropriate revenues from the FY 2005-2006 General Fund Reserve, which was budgeted at $24,260,750.

If the Board of Supervisors chooses to appropriate General Fund Reserve monies, as an advance to pay for one-time start-up costs, the Board could make arrangements to repay the amount advanced by the General Fund using future potential CCA net operating revenues from surcharges charged to ratepayers. In such a scenario, the City could amortize the payments over several years to soften the impact on ratepayers. However, the Budget Analyst notes that, as of the writing of this report, it is uncertain as to whether the revenues realized from electricity rates will be sufficient to repay the General Fund.

(c) **Loan from Wholesale Electricity Supplier** – This funding source is hypothetical and depends on the responses the City receives from the RFI/RFQ and RFP processes (see Comment No. 4). If this funding source does turn out to be available, the City could

borrow the funds from the electricity service provider necessary to pay for some or all of its start-up and one-time costs. The Budget Analyst notes, however, that the availability of this funding mechanism will not be known until a later time because such information would be obtained through the RFI/RFQ and RFP processes (see Comment No. 4). Further, according to both proposed timelines of both Local Power and the PUC, some of the start-up and one-time costs would be incurred prior to when responses from the RFP would be received by the City and prior to when a contract would be awarded.

(d) **Proposition H Revenue Bonds** – In 2001 San Francisco voters approved Proposition H, amending the City Charter to give the Board of Supervisors authority to issue revenue bonds to develop renewable energy facilities and to implement conservation in both the public and private sectors. The subject resolution calls for the use of this bond fund mechanism to invest in large-scale wind or other cost effective renewable energy generation.

According to Ms. Gloria Young, Executive Officer of LAFCO, at the September 9, 2005 LAFCO meeting, LAFCO voted to retain outside legal counsel to provide additional advice regarding, among other things, the use of Proposition H bond financing, as well as the issue of CCA governance (see Comment No. 1). According to Ms. Young, this contract for outside legal counsel, at a cost of $25,000, was executed with Nixon Peabody LLP, and the November 10, 2005 report summarizing their findings was presented at the LAFCO meeting of November 18, 2005. LAFCO voted to accept the report at this meeting.

Although not described by the PUC as a potential funding source for the one-time start-up costs of a CCA Program, the Budget Analyst notes that Nixon Peabody LLP concluded in its November 10, 2005 report to LAFCO that the City could use funds from Proposition H bonds to pay for the developmental costs of CCA such as "preparation of requests for

proposals, environmental studies, and permitting, accounting and legal expenses, in addition to 'hard costs' of construction."

Ongoing Costs: Regarding ongoing costs (in addition to the one-time start-up costs discussed above), Local Power did not provide a budget for the ongoing costs for the CCA Program. The Budget Analyst calculates, using information from Attachment II, that the preliminary PUC estimates for the ongoing PUC staffing costs for a CCA Program (including overhead) would be $5,596,946 annually. As noted above, this figure does not include the estimated $4,707,614 in annual costs for energy efficiency marketing efforts, which have been omitted from the PUC proposed CCA Program budget.

However, it should be noted that this preliminary PUC staffing plan and budget for ongoing CCA operations represents a normal operating year and does not provide for any unexpected contingency needs or funding to create necessary reserves. Also, as previously mentioned, the PUC's proposed budget does not include detailed consideration for costs associated with office space for new PUC staff. Finally, it should be noted that this staffing/budget is preliminary in nature and has not been reviewed by the various PUC organizational units that would be involved in CCA Program staffing.

Funding Source For Ongoing Costs: Ongoing costs for the CCA Program would be included in the rates to be paid by CCA customers comprised of San Francisco residents and businesses. The subject resolution states that the RFP specifications should provide that the City has the final authority to establish the actual electricity rates to be charged to CCA customers, via an Electricity Rate Fairness Board or similar entity. However, the subject resolution also includes the recommendation made in the Local Power draft IP, which establishes electricity rates based upon the rate structure recommended by the bidder chosen through the RFP process to provide the electrical power to CCA customers. This is one of the various internal inconsistencies in the subject resolution which the

Budget Analyst is recommending that the Board of Supervisors address (see Comment No. 2).

Long-Term Fiscal Viability and Rates:

Although the estimated reported one-time start-up costs of up to $12,100,948 for CCA implementation are significant, they are small relative to the estimated ongoing revenues that are projected to be realized by implementing a CCA Program. According to PUC Power Enterprise staff, the CCA Program revenues are expected to exceed $200,000,000 a year, an amount almost as much as the combined sewer and water revenues from City residents and businesses.

The financial viability of the CCA Program is still largely unknown and depends upon a number of factors (see Comment No. 6 "Major Variables Affecting Long-Term Fiscal Impact and Customer Rates"). Under some scenarios studied by Altos, a consultant retained by the PUC at a cost of approximately $120,000, the City's proposed CCA Program "has a reasonable prospect of offering customers a combination of reasonable priced, cleaner energy, and lower fossil fuel rate risk to its citizens." In the best case scenario, the CCA offers the prospect of savings of $700 million over 30 years, although there would be projected deficits from 2006 through 2008. "Savings," according to PUC Power Enterprise staff, is the decrease in the CCA's costs of supplying electricity as compared to PG&E's costs. PUC Power Enterprise staff advise that a portion of these savings will likely be used in the provision of an incentive package to the electricity service provider.

According to PUC Power Enterprise staff, a crucial assumption regarding the savings mentioned above is that the City must contract with a supplier having consistently superior abilities at purchasing and trading electricity on the market. However, according to the PUC/ENV draft IP, "In all cases, in the early years through 2008 or 2009, it is reasonably likely that CCA customer bills would exceed those of equivalent Pacific Gas and Electric (PG&E) bills. During the period of 2009-2010, it is estimated that CCA customer bills would show small savings over PG&E, and after 2010 CCA

customer bills could be consistently lower due both to the performance of the City's supplier and the City's investment in a commercially available renewable power project – which at this juncture appears to be a wind project."

According to PUC Power Enterprise staff, the PUC has recently committed an additional $26,500 in FY 2005-2006 for the extension of an existing professional services contract with Altos, the consultant who prepared the report discussed above, which will purportedly further improve the modeling capability of the short- and long-term financial analyses.

Comments:

1. Unclear Governance Structure

According to Mr. Joe Como of the City Attorney's Office, the City Attorney's Office interprets the City's Charter to mean that "the PUC has exclusive jurisdiction over the implementation of the CCA Program because it is an energy supply and utility of the City." The subject resolution acknowledges that legal opinion. However, the proposed resolution also simultaneously recommends the Local Power draft IP, which utilizes a governance structure of a "Program Director," which would initially serve as the lead entity implementing the CCA Program. According to the Local Power IP, the Program Director would lie outside of the PUC and would be directly accountable to the Board of Supervisors, not the PUC, and could be an outside contractor. Mr. Fenn advises that the work of the Program Director would be most work-intensive in the first two years, and would phase out after the duration of approximately five years.

The Budget Analyst notes that the proposed resolution is not clear about whether the PUC or a combination of the PUC and the Program Director has the authority to implement CCA. Mr. Como advises that this is one of the most significant issues with the subject resolution. This point is relevant to the Budget Analyst's fiscal analysis of the proposed CCA Program budgets because: (1) there are two competing budgets under consideration that have been submitted on behalf of the subject resolution that rely on significantly different organizational and staffing structures, and (2) the potential sources of funding may

differ under different governance scenarios. For example, if the CCA Program is started up using Hetch Hetchy funds, it is unclear if the Program Director, that is under the authority of the Board of Supervisors, and not accountable to the PUC, can obtain authorization to utilize such funds.

As previously noted, LAFCO voted to retain outside legal counsel to provide additional advice regarding, among other things, the issue of CCA governance as well as the use of Proposition H bond financing. According to Ms. Young, this contract for outside legal counsel, at a cost of $25,000, was executed with Nixon Peabody LLP, and their report of November 10, 2005 was presented at the LAFCO meeting of November 18, 2005. LAFCO voted to accept the report at this meeting.

Regarding CCA jurisdiction and implementation structure, Nixon Peabody LLP concluded:

"Only the Board of Supervisors can elect CCA for the City and County of San Francisco ("CCSF"). That authority includes the power to condition the method of implementation. Article VIIIB of the City Charter does not transfer that authority to SFPUC. It is unclear whether a court would conclude that Article VIIIB requires the Board of Supervisors to designate SFPUC to implement CCA and whether the SFPUC could, under Article VIIIB of the City Charter, decline to implement a CCA Implementation Plan adopted by the Board of Supervisors."

The Nixon Peabody LLP report further concluded:

"Based on the SFPUC's analysis of tasks and of CCSF's internal resources... of its Draft Implementation Plan, and taking into account the need for a highly focused and effective start-up commitment, CCSF would be best served by an organizational structure which initially contracts for almost all functions, retaining a limited number of discrete functions, subject to vigorous policy level supervision. Success also requires that CCSF act as a cohesive whole and give serious consideration to a policy-level board of control integrating the objectives of

the Board of Supervisors, SFPUC, and the executive branch, or some other structure to ensure effective communication from and to policymakers."

The Budget Analyst recommends that the Board of Supervisors resolve this central issue of governance as soon as possible, and certainly prior to the submission of a final IP to the California PUC. The Budget Analyst notes that the Board of Supervisors could choose among a number of courses of action at this juncture. It could: (a) follow the City Attorney's opinion that the PUC has exclusive jurisdiction over the implementation of the CCA, (b) follow the legal opinion on this matter provided to LAFCO by Nixon Peabody LLP at the LAFCO meeting on November 18, 2005, or (c) decide, as a policy matter, how the CCA Program should be governed. This decision should be clearly reflected in the subject resolution (see Recommendation No. 1).

2. Inconsistencies Between the Subject Resolution's Recommended IP and the Subject Resolution's Policy and Program Recommendations

The Budget Analyst notes that the subject resolution both (a) recommends a specific IP submitted by Local Power and (b) makes general policy and program recommendations that are not consistent with the recommended Local Power IP. The Budget Analyst asked the City Attorney's Office to explain this contradiction. In response, Mr. Como stated: "The resolution recommends that the Board of Supervisors adopt the Local Power draft IP and submit it to the California PUC for approval. However, at the same time, the resolution makes program changes that are not in the Local Power draft IP."

The following Table 5, compiled by the Budget Analyst with input from Mr. Como, summarizes some, but not necessarily all, of the key differences between the Local Power draft IP and the subject resolution's policy and program recommendations.

Table 5: Differences Between the Local Power Draft IP and the Subject Resolution's Policy and Program Recommendations

Policy or Program Component	Local Power Draft IP	Subject Resolution's LAFCO Policy and Program Recommendations
Jurisdiction (see "Unclear Governance Structure" above)	Program jointly run by non-City Program Director and PUC; accountable to Board of Supervisors	Unclear
City Staffing	Majority of program staffing done by outside contractor	City staffs, on an internal basis, energy efficiency and public interface functions
Rate-Setting	Rates are decided upon through contract with electricity service provider and must "meet or beat" PG&E rates; no public process	Rate fairness board would be used that would "meet or beat" existing level of public due process
Number of Contractors	One	Does not limit
Amount of Renewables *	360 Megawatts (MW)	Goal of 360 MW, but not mandatory; states that the amount would depend on the economics
Types of Renewables	Focus on "distributed" renewable generation (such as solar panels on City rooftops)	Mentions both distributed renewable generation and larger-scale renewable projects, such as wind farm
City Contracting Requirements Incorporated (i.e. MBE, WBE, etc.)	No	Yes
Job Creation in San Francisco Incorporated	No	Yes

* "Renewables" refers to energy obtained through renewable sources, such as energy generated by wind or solar.

Because there are a significant number of points of difference between the Local Power draft IP and the subject resolution's LAFCO policy and program recommendations, the Budget Analyst recommends that the Board of Supervisors amend the subject resolution to clarify its opinions with regard to the differences between the Local Power draft IP and the subject resolution's policy and program recommendations (see Recommendation No. 2).

3. Unclear Next Steps

The Budget Analyst notes that, although (a) the PUC and ENV submitted a draft IP, as required by Ordinance

0086-04, and (b) the subject resolution makes frequent mention of the PUC/ENV draft IP, the PUC/ENV draft IP is currently not being considered under the proposed subject resolution. The Budget Analyst requested the City Attorney's Office to explain this situation, and, in response, Mr. Como stated: "Ordinance 0086-04 called for PUC and ENV to submit an IP for review and approval by the Board of Supervisors, but the subject resolution is silent on what happens to the draft IP submitted by PUC/ENV."

Moreover, the Budget Analyst notes that there is confusion among City departments that are working on the CCA Program as to the next step in the process if the subject resolution is approved by the Board of Supervisors. The Budget Analyst requested the opinion of the City Attorney regarding this question. Mr. Como, in response, stated that "The subject resolution is silent on how the resolution's recommendations get incorporated into a final IP or who does them (PUC/ENV or Local Power).... State law requires the Board of Supervisors to approve the IP that goes to the CPUC, so I believe that the Board of Supervisors would have to see the final IP after all of the policy guidance from the resolution is incorporated into the IP."

Therefore, the Budget Analyst recommends that the subject resolution be amended by the Board of Supervisors to clarify the final disposition of the draft implementation plan that was submitted by PUC/ENV, and to clarify how and which of LAFCO's policy and program recommendations are to be incorporated into the final IP (see Recommendations Nos. 3 and 4).

4. RFI/RFQ

The subject resolution states that a Request for Information (RFI) or a Request for Qualification (RFQ) process may be undertaken prior to preparation of the RFP in order to determine the interest and variety of potential bidders on the RFP to serve as the energy supplier. According to PUC Power Enterprise staff, an RFI/RFQ should provide the responses from potential electricity providers and others that will assist in evaluating CCA viability. PUC Power Enterprise staff stated that the PUC intends to issue an RFI/RFQ as

early as November of 2005. PUC Power Enterprise staff advise that it is highly preferable for the RFI/RFQ process to be undertaken as soon as possible, given the need to receive and analyze responses in the third quarter of FY 2005-2006, so that the information can be incorporated into the City's and/or the PUC's FY 2006-2007 budgets. Local Power's program budget proposes that an RFI/RFQ process take place in April of 2006, primarily under the direction of the Program Director, not the PUC (see Comment No. 1 "Unclear Governance" above).

The Budget Analyst recommends that the subject resolution be amended to request the City, either the PUC or Program Director, as decided by the Board of Supervisors, to undertake a RFI/RFQ process as soon as possible, preferably prior to the end of the second quarter of FY 2005-2006, so that the information gained can be used to plan for the FY 2006-2007 budget (see Recommendation No. 5).

5. <u>Future Actions for the Board of Supervisors</u>
According to Mr. Como, by approving the proposed resolution, the Board of Supervisors recommends the submission of the Local Power draft IP to the California PUC and recommends LAFCO's program and policy recommendations. Mr. Como states that the subject proposed resolution does not provide a mechanism for the LAFCO policy and program recommendations to be incorporated into the Local Power draft IP. Should the Board of Supervisors approve the subject resolution and submit a final IP to the California PUC for certification, the City is still not obligated to implement the IP. Mr. Como advises that the Board of Supervisors must hold a public hearing on the State-certified IP and approve a separate ordinance to implement such an IP. In accordance with Charter section 9.118, the Board of Supervisors will have to approve such contracts with a term of greater than 10 years or with expenditures greater than $10,000,000. This may include several of the potential contracts that will have to be awarded to support the CCA Program.

Some of the next stages at which the Board of Supervisors will be required to approve CCA legislation include: the approval of the final RFP, the approval of the contract(s) with the electricity service provider(s), and the appropriation of CCA Program funds by the Board of Supervisors. As noted above, the contract(s) with the electricity service provider(s) may be subject to Board of Supervisors approval.

According to Mr. Como, approval of the subject resolution does not necessarily pose any increased liability to the City at present because the City can withdraw from CCA implementation at any time up until a contract is signed with an energy service provider. PUC Power Enterprise staff note, however, that it is possible that the City may not be able to enter into a contract with an energy service provider if satisfactory responses to the RFP are not received.

6. <u>Major Variables Affecting Long-Term Fiscal Impact and Customer Rates</u>
As noted above, the financial viability of the CCA Program is still largely unknown and depends upon a number of factors. Some of the major variables are:

(a) *California PUC Rulings* - The California PUC has yet to determine the Cost Recovery Surcharges (CRS)[4], set the costs PG&E will be allowed to charge CCAs for services (such as customer billing), and establish the level of commitment a city must demonstrate for PG&E to no longer procure electricity for city customers. After these determinations are made, likely in December of 2005, it will be possible to have a clearer understanding of the fiscal viability of the City's CCA Program.

(b) *Customer Mix* - State law requires that CCAs offer service to all residential customers. However, the inclusion of commercial customers can make a CCA more fiscally sound. The subject resolution states the City intends to offer service to all classes of customers,

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[4] According to PUC Power Enterprise staff, pursuant to AB 117, cost recovery surcharges (CRS) are expenses the California PUC will charge San Francisco CCA customers to pay a share of the unavoidable costs of power contracts that were entered into by the State and PG&E, so that PG&E's remaining customers are no worse off due to CCA implementation by the City.

including San Francisco residents and businesses. However, the number of commercial customers who will choose CCA electricity service is unknown, and will largely depend upon the electricity price which the CCA will be able to offer. Substantial opt-out by larger commercial electricity customers presents a substantial risk to the economic success of the CCA. According to PUC Power Enterprise staff, one percent of the CCA's potential accounts consumes 50 percent of the potential CCA electric consumption. The customers comprising this one percent are businesses that are large electricity consumers. Therefore, as previously noted, PUC Power Enterprise staff advises that one of the most important ways to ensure that as few customers as possible choose to opt-out of CCA is through a thorough communications campaign to all residents and businesses in San Francisco, with a strong emphasis on targeted outreach to the largest electricity consumers.

(c) *Trading Abilities of Supplier* - According to the PUC/ENV draft IP, to achieve the long-term CCA goals, the City must successfully implement the CCA Program with a supplier with consistently superior trading abilities.

(d) *Proposition H Bond Financing* – As noted above, in 2001 San Francisco voters approved Proposition H, amending the City Charter to give the Board of Supervisors authority to issue revenue bonds to develop renewable energy facilities and to implement conservation in both the public and private sectors. The subject resolution calls for the use of this bond fund mechanism to invest in large-scale wind or other cost effective renewable energy generation. The taxable status of such funds may impact the financial viability of the CCA program and/or the rates charged to CCA customers.

Nixon Peabody LLP, in its November 10, 2005 report to LAFCO regarding the issue of the tax status of Proposition H bonds, found that:

"Whether the bonds will qualify for tax-exempt status and other factors affecting their marketability are

dependent on the structure of the transaction being financed... Generally, in order to qualify for tax exemption, the facilities which are financed must be owned by CCSF (or other governmental entity) or operated by CCSF (or other governmental entity) or by a non-governmental entity on behalf of CCSF pursuant to a contract that meets certain requirements prescribed by the Internal Revenue Service. Even if not tax exempt, Proposition H Bonds could still be issued to finance facilities which further CCA, albeit at a slightly higher interest cost."

(e) *Other Market Factors* - Other electricity market factors, including other supplier prices, a natural disaster, and overall market failure, are potential significant contributors to CCA's long-term financial viability.

Summary of Key Points:

The total estimated one-time start-up costs for the implementation of a CCA Program range between $8,871,316 and $12,100,948. Local Power's proposed CCA program budget is $12,100,948, and the PUC's preliminary proposed budget ranges between $8,871,316 and $10,012,721, not including the value of existing PUC staff working on CCA implementation during FY 2005-2006. The long-term financial viability of the CCA Program is still largely unknown and depends upon a number of factors, including future CPUC rulings, customer mix, trading abilities of the supplier, tax status of Proposition H bonds, and other market factors.

The budgets proposed by Local Power and PUC have significant differences. For example, the two budgets assume different governance structures, have different staffing plans, utilize different timelines, and allocate different amounts of time and resources to the program functions. According to the PUC's proposed budget, the City will not incur any additional costs in the current fiscal year by approving the subject resolution, but the City will incur new costs in the current fiscal year under the Local Power proposed budget, estimated to be $5,570,915. The Budget Analyst questions, however, whether the PUC has the staffing capacity to complete

all of its proposed FY 2005-2006 activities with its current level of staffing.

According to both the Local Power and PUC proposed budgets for CCA implementation, significant new funds for start-up and one-time costs will be required in the next one or two years. It is estimated that the Local Power proposed plan would require $6,530,033 in FY 2006-2007. Because the PUC's proposed CCA implementation timeline is later, it is estimated that the PUC proposed plan would require between $8,471,316 and $9,612,721 in both FY 2006-2007 and FY 2007-2008.

There are four potential funding mechanisms currently identified for the one-time and start-up costs. They are: Hetch Hetchy Enterprise net operating revenues, General Fund revenues, a loan from a wholesale electricity supplier, and Proposition H revenue bonds. Ongoing costs for the CCA Program would be included in the rates to be paid by CCA customers comprised of San Francisco residents and businesses.

Although the estimated reported one-time start-up costs of up to $12,100,948 for CCA implementation are significant, they are small relative to the estimated ongoing revenues that are projected to be realized by implementing a CCA Program. According to PUC Power Enterprise staff, the CCA Program revenues are expected to exceed $200,000,000 a year, an amount almost as much as the combined sewer and water revenues from City residents and businesses.

The financial viability of the CCA Program is still largely unknown and depends upon a number of factors. Under some scenarios studied by Altos, a consultant retained by the PUC at a cost of approximately $120,000, the City's proposed CCA Program "has a reasonable prospect of offering customers a combination of reasonable priced, cleaner energy, and lower fossil fuel rate risk to its citizens." In the best case scenario, the CCA offers the prospect of savings of $700 million over 30 years, although there would be projected deficits from 2006 through 2008. "Savings," according to PUC Power Enterprise staff, is the decrease in the CCA's costs of

supplying electricity as compared to PG&E's costs. PUC Power Enterprise staff advise that a portion of these savings will likely be used in the provision of an incentive package to the electricity service provider.

According to PUC Power Enterprise staff, a crucial assumption regarding the savings mentioned above is that the City must contract with a supplier having consistently superior abilities at purchasing and trading electricity on the market. However, according to the PUC/ENV draft implementation plan (IP), "In all cases, in the early years through 2008 or 2009, it is reasonably likely that CCA customer bills would exceed those of equivalent Pacific Gas and Electric (PG&E) bills. During the period of 2009-2010, it is estimated that CCA customer bills would show small savings over PG&E, and after 2010 CCA customer bills could be consistently lower due both to the performance of the City's supplier and the City's investment in a commercially available renewable power project – which at this juncture appears to be a wind project."

There are a number of questions related to the CCA Program's governance and functions that have yet to be answered. These questions may have a significant impact on the budget for CCA implementation. For example, the proposed resolution is not clear about whether the PUC or a combination of the PUC and the Program Director has the authority to implement CCA. There are also inconsistencies between the subject resolution's recommended IP and the subject resolution's policy and program recommendations. Therefore, the Budget Analyst has made recommendations that the Board of Supervisors amend the subject resolution in order to clarify these issues.

Recommendations:

1. In accordance with Comment No. 1, amend the subject resolution to clarify the Board of Supervisors intent related to the governance structure of the Community Choice Aggregation (CCA) Program, regarding whether the PUC or a combination of the PUC and the Program Director has the authority to implement the CCA Program.

2. In accordance with Comment No. 2, amend the subject resolution to clarify the Board of Supervisors intent with regard to the differences between the Local Power draft implementation plan and the subject resolution's LAFCO policy and program recommendations.

3. In accordance with Comment No. 3, amend the subject resolution to clarify the final disposition of the draft implementation plan that was submitted by PUC/ENV.

4. In accordance with Comment No. 3, amend the subject resolution to clarify how and which of LAFCO's policy and program recommendations are to be incorporated into the final Community Choice Aggregation Implementation Plan.

5. In accordance with Comment No. 4, amend the subject resolution to request that the City, either the PUC or Program Director, as decided by the Board of Supervisors, undertake a RFI/RFQ process as soon as possible so that the information gained can be used to plan for the FY 2006-2007 budget.

6. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

Harvey M. Rose

cc: Supervisor Ammiano
Supervisor Mirkarimi
Supervisor Elsbernd
President Peskin
Supervisor Alioto-Pier
Supervisor Daly
Supervisor Dufty
Supervisor Ma
Supervisor Maxwell
Supervisor McGoldrick
Supervisor Sandoval
Clerk of the Board
Controller
Noelle Simmons
Cheryl Adams

CCA One-Time Pre-Start-Up Activities (1)	Estimated Total $
Implementation Plan Finalization (2)	$240,000
CCSF Customer Data Updates (3)(4)	$10,000
Request for Proposals (5)(6)	$150,000
Customer Call Center (7)	$250,000
PG&E Start-Up Service Fees	$838,508
Communications Effort (8)	$4,350,000
Total	$5,838,508

PG&E Service Fees (8)

		$/Event	$/Account	$/hour	$/minute	Estimated Work Hrs/mins	# of Accounts/ Meters	Subtotal $/Event	Subtotal $/Unit/Hourly	Total $
Opt-Out										
	Notifications (12)	$ 1,400.00	$ 0.36				359,143	$ 5,600.00	$ 452,520.18	$ 458,120.18
	Processing		$ 1.18				35,914		$ 42,378.52	$ 42,378.52
Subtotal										$ 500,498.70
Other PG&E Service Fees										
	CCA Establishment			$ 95.00		25			$ 2,375.00	$ 2,375.00
	Customer List Development	$ 2,390.00						$ 2,390.00		$ 2,390.00
	Customer Mass Enrollment Processing	$ 4,120.00	$ 0.40				323,229	$ 4,120.00	$ 129,291.60	$ 133,411.60
	PG&E Customer Contacts (phone calls)				$ 0.92	217,210			$ 199,833.10	$ 199,833.10
Subtotal										$ 338,009.70
Total										$ 838,508.40

Notes:

1) One-time Start-Up activities are tasks that must be completed prior to the initiation of the customer opt-out notification process, which commences approximately 105 days before customer transfer from PG&E occurs.

2) Funded in 2005-2006

3) Prior to commencing service the CCA will need to update its customer information, which includes detailed customer load data, and potential customer contact information. Detailed customer load data is important at this stage because prior to the commencement of the opt-out period the CCA will need to produce a load forecast for both power procurement and regulatory purposes. It is important that the City have several years of customer load data to best analyze electrical demand patterns over time.

4) Funded in 2005-2006

5) Includes Request for Information and Request for Qualifications

6) Funded in 2005-2006

7) Contingency customer care support in case call volumes are higher than expected.

8) The PG&E service fee estimates are based on testimony provided by PG&E to the CPUC during Phase II of the CCA proceeding. Although CCSF has contested the cost figures provided by PG&E, we are assuming here, only for budgeting purposes, that the CPUC adopts the PG&E proposed costs.

9) For opt-out, the $0.36/account notification fee assumes that the cost of materials and postage is included here and there will be no additional cost for opt-out notification mailings. There will be 4 opt-out notification "events", so we have multiplied the per event fee by 4. Opt-out processing assumes that PG&E will only charge the CCA for the cost of processing customer accounts that are returning to PG&E bundled service. A 10% opt-out rate was assumed, meaning that 35,914 customers elect not to participate in the CCA program.

10) PG&E defines CCA establishment as the cost of establishing a new business relationship between the CCA and PG&E including such costs as EDI testing and processing of forms and agreements including but not limited to: the CCA Service Agreement, The CCA Provider Information Form, The Credit Application, The Electronic Funds Transfer Agreemetn, and provides for a review of the CCA's credit worthiness. Although the time necessary to complete this function may vary by CCA, we estimate that this will require 25 hours of PG&E staff time.

11) In testimony before the CPUC PG&E estimated its cost per minute for handling customer call related to a specific CCA formation at $0.92. CCSF has contested this cost figure, but for purposes here we have assumed they are successful on this point before the CPUC. We have made a conservative assumption on the amount of calls PG&E will take related to the CCSF CCA program. This assumption is based on the formula used in Appendix A of the SFPUC/SFE draft implementation plan: 1 customer in 50 will call monthly with a question resulting in 6300 calls per month, or approximately 250 calls per day; each call will average 7 minutes duration with a 1 minute wrap up time. For purposes here we assume that PG&E in the start-up period will receive 40% of all customer calls regarding the program over the course of a year. This estimate of customer calls to PG&E will not reduce the need to staff the CCA call center to handle the full customer contact load.

(12) Although there are four opt-out notifications sent to potential CCSF CCA customers during the full opt-out period, a multiplier of 3.5 was used to account for some customer loss along the way and a corresponding reduction in notices sent as a result.

CCA START-UP COSTS

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CCA Start-Up Activities (1)				
Staffing Breakdown and Roles	Head Count	CCSF Classificatio n	Salary Per Employee	Staff Cost with Overhead (2.55)
Customer Care Representatives (2)	9	1478	$ 54,860.00	$ 1,259,037.00
Customer Service Manger	1	5602	$ 98,696.00	$ 251,674.80
Customer Care Center Supervisors	2	1480	$ 60,164.00	$ 306,836.40
Administrative Assistants	2	1402	$ 39,078.00	$ 199,297.80
Information System Administrator	1	1023	$ 83,018.00	$ 211,695.90
Regulatory Analyst	1	5601	$ 68,666.00	$ 175,098.30
Regulatory Manager	1	5634	$ 111,436.00	$ 284,161.80
Contract, Finance, and Reporting Analysts (3)	0	1823	$ 78,702.00	$ -
Attorney	1	8177	$ 127,270.00	$ 324,538.50
Contract Manager (4)	0	922	$ 78,013.00	$ -
Marketing/Outreach Coordinators (5)	2	931	$ 90,324.00	$ 460,652.40
Opt-out Supervisor	1	1480	$ 60,164.00	$ 153,418.20
Opt-out Clerks	3	1478	$ 54,860.00	$ 419,679.00
Public Relations Officer	2	1314	$ 72,800.00	$ 371,280.00
Executive Secretary	1	1450	$ 58,136.00	$ 148,246.80
Total	27			$ 4,565,616.90

Miscellaneous Start-Up Costs	Activity Cost $
Upgrades to SFPUC Customer Call Center Facilities (6)	$ 750,000.00
Total	$ 750,000.00

Subtotal Staff Costs	$ 4,565,617
Subtotal Misc. Costs	$ 750,000
At 50% Staffing Start-Up	$ 2,282,808
At 75% Staffing Start-Up	$ 3,424,213
CCA 100%Start-Up Total Costs	$ 5,315,617

Notes:

1) By start-up we are referring a period 6-12 months prior to commencement of full CCA operations. This budget should take the program through the initial opt-out period. *This cost forecast does not include a detailed consideration of office space for new PUC staff.*
2) Based on analysis described in Appendix A of the SFPUC/SFE Draft Implementation Plan, we estimate that the customer call center will need 9 customer care representatives for regular operation. There may be a short-term need for additional customer call center support during the intial opt-out period. This additional support may be filled by cross-training 3 SFPUC water/sewer call center staff to handle CCA matters when during periods of high demand for customer service - we have also included contigency funding in the one-time cost category of million if very
3) Increases to 3 after commencement of service
4) Increases to 1 after commencement of service
5) Increases to 3 after commencement of service - however if the Sales/Energy Efficiency Division is created then these positions will not be nece
6) Includes software, hardware, and new phone lines.
7) The Energy Efficiency, and Marketing Division is based on analysis performed and described in Appendix A of the SFPUC/SFE Draft Implementation Plan. We have provided salary and overhead costs for this division for a full year. Since it is possible that there will be external funding for some portion of these costs they have not been included, at this time, in the CCA start-up cost category.

ENERGY EFFICIENCY/MARKETING DIVISION STAFFING COSTS ANNUAL BASIS.

Energy Efficiency, and Marketing Division (7)				
Senior Marketers/Account Representatives	5	931	$ 90,324.00	$ 1,151,631.00
Account Representatives for Large Customers	20	1478	$ 54,860.00	$ 2,797,860.00
Sales and Marketing Manager	1	943	$ 136,922.00	$ 349,151.10
Supervisor of Account Representatives	1	1824	$ 82,225.00	$ 209,673.75
Sales and Marketing Administrative Assistant	2	1402	$ 39,078.00	$ 199,297.80
Subtotal: Energy Efficiency, and Marketing Division	29			*$ 4,707,613.65*

COMMUNICATIONS BUDGET BREAK-DOWN.

Draft - 09-23-2005

Communications Program	Estimated Total $
Advertising/Marketing Campaign	$3,000,000
One-Time Communications Staff	$500,000
Customer Research	$200,000
Printing, Materials, Graphic Design	$250,000
Four City-wide informational mailings (not opt-out)	$400,000
Total	**$4,350,000**

SFPUC CCA BUDGET 2005-2006. AND EXPENDITURE PLAN.

Draft - 09-23-2005 -

SFPUC CCA Budget FY 2005-2006

Staff (1)	Role	CCSF. Classification	Average Salary	Staff Cost with Overhead (2.55)	% of Time Committed to Project	Adjusted Staff/Consulting Cost for Project
	Regulatory Manager	5634	$111,436	$284,162	0.9	$255,746
	Utility Analyst	5601	$68,666	$175,098	0.9	$157,588
	Utility Specialist	5602	$98,696	$251,675	0.33	$83,053
	Principle Admin Analyst	1824	$91,962	$234,503	0.75	$175,877
	City Attorney	8177	$127,270	$324,539	0.75	$243,404
Consultants						
	Implementation Plan (2)					$250,000
	RFP/RFI/RFQ (3)					$150,000
Total						$1,315,668

Notes:

1) SFPUC and City Attorney staff to provide: CCA regulatory support, task force support, analytical support on CCA Implementation Plan, respond to initiatives of Board of Supervisors, and limited small scale outreach to San Francisco residential and business communities.

2) The consulting budget for the implementation plan includes funds analytical and technical assistance in finalizing the document required to be submitted to the California Public Utilities Commission prior to commencement of CCA service as well as analytical and technical assistance producing a compliance filing for the California Renewable Portfolio Standard (RPS). The RPS filing is not yet a requirement, but may become one.

3) The consulting budget for the RFP includes analytical assistance in producing a Request for Information and a Request for Qualifications that will precede the release of the RFP.

SFPUC EXPENDITURE PLAN FOR 2005-2006.

Draft - 09-23-2005

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Regulatory Manager	$63,936.41	$63,936.41	$63,936.41	$63,936.41
Utility Analyst	$39,397.12	$39,397.12	$39,397.12	$39,397.12
Utility Specialist	$20,763.17	$20,763.17	$20,763.17	$20,763.17
Principle Admin Analyst	$43,969.33	$43,969.33	$43,969.33	$43,969.33
City Attorney	$60,850.97	$60,850.97	$60,850.97	$60,850.97
Consulting Resources				
Implementation Plan		$26,500.00	$125,000.00	$98,500.00
RFI/RFQ/RFP			$100,000.00	$50,000.00
Subtotal	$228,916.99	$255,416.99	$453,916.99	$377,416.99
Total	**$1,315,667.97**			

SFPUC
WATER
WASTEWATER
POWER

SAN FRANCISCO PUBLIC UTILITIES COMMISSION

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Memo To: Budget Analyst Office.

From: SFPUC Power Enterprise Staff.(September 28, 2005).

SFPUC Estimated CCA Start-Up and Short-Term Budgeting In Response to Budget Analyst Questions of September 20/2005. (September 28, 2005).

Attached are the answers to the Budget Analyst questions and accompanying explanations regarding CCA budget estimates.

Q.1 What is the detailed projected CCA one-time and start-up costs?

A.1 Please see the separately forwarded numbers in Attachment I and Attachment II.

Given the rapid turn-around for completion of this Draft of CCA Start-Up and Short-term budgets this document has not benefited from the review of SFPUC departments who could provide scrutiny and perhaps correction of some of the estimates. Later drafts will incorporate this review.

This document uses the following terms: - "One-time costs" are costs incurred for an activity that either is only undertaken prior to CCA implementation or is undertaken in an extremely intensive level prior to CCA implementation, a level that is anticipated to quickly decline during CCA operation. For example, CCA advertising cost and effort is likely to be far higher prior to implementation than during normal operation. Start-up costs are costs for activities undertaken at a standard or similar level of intensity both before and during CCA normal operation but these costs are incurred prior to actual CCA implementation e.g. a call centre will need to be operated prior to CCA implementation and after CCA implementation. The recognition of the important difference between these terms was not fully understood in the SFPUC/SFE CCA Draft Implementation Report of April 27th/2005 and the terms may have been used interchangeably. Hence the preliminary $5 million figure for start-up costs cited in that report was actually an early assessment of one-time costs. Therefore, as discussed below, start-up costs are in fact the start of regular CCA activities (therefore not one-time costs) that will extend into standard operating budgets. However these are termed start-up costs since the activity and cost incurrence will begin prior to receipt of any CCA revenues.

The grand total of one-time and start-up costs is currently estimated at between \$9.0 and \$10.0 million. If however external funding is not available to fund needed energy efficiency positions then these amounts could increase.

Attachment I provides an estimated one-time cost of \$5.83 million. A small portion of this cost is included in the current SFPUC 2005-2006 budget. However the majority of the cost is for two items a significant communication effort that is estimated to begin by the second quarter of 2006, and the various PG&E fees that will be incurred on a one-time basis.

The estimated service fees to be charged by PG&E contain a number of critical assumptions: a) that the opt-out notification fee includes the cost of both materials, meaning printing the opt-out notifications, and postage for mailing the notices; and b) that the \$0.92/minute cost proposed by PG&E for CCA related calls is accepted by the CPUC (CCSF contests this cost figure).

Attachment II provides an SFPUC/SFE estimated staffing total of \$4.56 million for CCA Start-Up activities on an annual basis that equates to \$2.28 million assuming a 50% activity level prior to start-up, and \$750,000 for hardware/software support to the Customer Call Centre. However this total is also subject to a number of qualifications.

First, the staffing total does not include any significant effort regarding the marketing and outreach for energy efficiency to specific customer accounts – a total of 33 employees and an annual staffing cost of \$4.4 million was previously estimated in the SFPUC/SFE Draft Implementation Plan for staffing an energy efficiency/outreach budget. For purposes of estimating City of San Francisco funded start-up costs we have assumed, for now, that funding for energy efficiency efforts will be obtained externally of the CCA budget e.g. via direct control of the electric Public Goods Surcharge funds contributed by San Francisco electric ratepayers. To the extent the Implementation Plan finally adopted by the BOS requires a significant direct marketing of energy efficiency (individual customer account oriented) without a source of external funding, the CCA start-up staffing costs for this effort would result in staffing costs significantly above those presented in Attachment II.

Second, the staffing cost estimate is prepared on an annual basis. A rule of thumb for the actual pre CCA-revenue inflow start-up costs would be some

percentage of this amount. This fraction may vary between the different staffing categories e.g. most customer care representatives might start employment e.g. about 3 months prior to implementation while some communications staff will be working at least one year prior CCA implementation. Above we use a 50% figure until a more precise sequencing and time-line for CCA implementation can be developed.

Third, we note, that as a back-up measure, it may be possible for some of the largest budget elements – like Customer Care (Call Center staff) – to also utilize existing SFPUC call center staff who respond to water and sewer phone inquiries for any non-budgeted overflow calls. However we have budgeted a contingency amount of $250,000 in one-time costs to deal with potential call centre overflow.

Fourth, there is a degree of overlap and trade-off between the expenditures on the communications effort that we present and the expenditures on customer care representatives (which total annually almost $1.9 million of the $4.65 million staffing cost). To the extent the Communications effort satisfactorily provides an accurate and complete CCA message to the great majority of San Franciscans then the number of phone inquiries should correspondingly drop, as will the number of phone-calls to which PG&E responds for which San Francisco will be charged.

We also present a figure of $1.3 million dollars already budgeted for CCA work in the 2005-2006 budget year by the Hetch Hetchy Power Enterprise. This budget is for internal staff, city attorney time, outside consulting services, and data request costs. However a relatively small amount ($26,500) has already been committed for work – s ee below under 2.

We have also presented a separate accounting of Communication/Outreach costs as estimated by the Communications Department of the SFPUC – this total budget is $4.3 million. This communications budget presumes a 9-month customer outreach program that escalates as the opt-out period nears. Depending upon timing of BOS decisions and the timing of a final RFP decision this Communications effort may have to be accelerated into a more compressed time frame. This compression may result in a cost reduction to the overall staffing costs. For purposes of conservatively estimating one-time costs we recommend that 100% of this budget be used.[1]

[1] **The Communications staff of the SFPUC proposed budget is $5.34 million that in total incorporates five phases of activity beginning about 18 months prior to CCA implementation and extends into a post-enrollment period. Given the anticipated time-line for CCA implementation the above $4.3 million budget is a condensation of this plan.**

Q.2 What is the SFPUC CCA budget for Fiscal Year 2005-2006, including source of funds.

A.2 In Attachment IV, page 1, we present information on the current SFPUC CCA budget for 2005-2006. Depending upon sequencing of the steps toward implementation of CCA it may be that this budget will have to expand to accommodate some communication effort during the second quarter of 2006. Hetch Hetchy Enterprise net operating revenues are the source of funding for these CCA activities.

Q.3 What is the amount already used in the SFPUC FY 2005-2006 budget, including purpose of use.

A.3 About one quarter of the 2005-2006 staffing budget has already been expended (July-September) and a small amount of consultant funds have been encumbered (but not expended) for work in late September and October ($26,500). The purpose of these consultant funds is to improve the CCA economic analysis tool already developed in fiscal 2004-2005.

Q.4 Expenditure plan for the remaining FY 2005-2006 funds earmarked for CCA activities.

A.4 The expenditure plan in summary form is provided in Attachment IV, page 2, and the staff and consultant activities are all oriented toward a continuation of the steps necessary to implement CCA.

Q.5 Which start-up and one-time costs required by the merged CCA resolution being considered by the finance committee will be covered by the SFPUC's FY 2005-2006 budget?

A.5 We do not know which start-up and one-time costs will actually be required by a merged CCA resolution. But currently there are no extensive or large-scale start-up or one-time costs currently covered by the SFPUC FY 2005-2006 Budget. However this 2005-2006 budget is anticipated to be adequate to accommodate the important steps of development and publication costs for an RFI/RFQ/RFP process, the filing of a CCA Implementation Plan at the CPUC, and continued regulatory intervention at the CPUC.

Q.6 **Was there any plan for the source of funds for one-time CCA costs in the SFPUC implementation plan? If not, in the SFPUC analysis, what are some of the options available to the City and SFPUC for initially funding CCA?**

A.6 As stated above The SFPUC/SFE Draft Implementation Plan raised the issue of one -time CCA costs and made a very preliminary estimate as discussed at the Budget and Finance Committee Hearing on September 15th. However the plan did not address the issue of the source of funds for either one-time or CCA start-up costs. Options appear to include additional funding from Hetch Hetchy Enterprise net operating revenues, - which would require the consent of the SFPUC Commissioners - revenues from the General Fund, or a loan from the wholesale electric supplier to the CCA. In cases where city funding is used for CCA start-up costs, this could potentially be considered a loan to the CCA enterprise to be repaid over some defined period of time. It also may be possible, depending upon timing, to make arrangements to defer payment to some vendors until after the CCA enterprise begins obtaining revenues.

Local Power's Proposed CCA Implementation Budget, One Time Costs

Task	Program Director	SFPUC/SFE	Total
Start Up Phase			
Finalize IP	$95,004	$46,340	$141,344
Define R&R, MOU	$50,400	$4,456	$54,856
Define Metrics	$12,852	$2,350	$15,202
Financial Processes	$26,460	$8,772	$35,232
Engage Staff	$10,080	$8,913	$18,993
Program Plan	$91,224	$22,670	$113,894
Engagement Strategy	$20,916	$0	$20,916
CPUC Phase II	$26,460	$60,159	$86,619
Solar Ordinance	$95,760	$7,604	$103,364
Kick-Off	$79,380	$46,523	$125,903
Subtotal Start-Up	*$508,536*	*$207,788*	$716,324
Program Development Phase			
Program Basis Report	$237,258	$135,017	$372,275
Remove Barriers	$38,934	$22,970	$61,904
Risk Analysis	$70,560	$47,997	$118,557
CCA Lessons Learned	$31,500	$8,003	$39,503
Hydro Options	$19,656	$158,666	$178,322
Low-Income Program	$8,316	$171,041	$179,357
Financing Plan & Model	$371,700	$38,978	$410,678
DB Integration	$141,120	$169,983	$311,103
PG&E Interface Plan	$191,520	$196,895	$388,415
CSC Analysis	$14,616	$117,358	$131,974
CSC Design	$30,240	$259,189	$289,429
Comm Plan	$93,240	$10,369	$103,609
360 Portfolio	$83,160	$106,610	$189,770
PG&E Tech Interface	$40,320	$170,732	$211,052
Siting, Permiting, Acquisition	$206,640	$242,380	$449,020
Regulatory Support	$54,432	$55,102	$109,534
Setup Rate Board	$20,160	$64,726	$84,886
Subtotal Program Development	*$1,653,372*	*$1,976,016*	*$3,629,388*
Procurement Phase			
Prepare RFI/RFQ	$181,440	$36,358	$217,798
Prepare RFP	$667,296	$340,108	$1,007,404
Prepare T&C, ITP	$174,384	$57,863	$232,247
Prepare Eval Proc	$101,304	$24,857	$126,161
Industry Review	$174,888	$95,993	$270,881
Evaluate Bids	$461,160	$226,077	$687,237
Award	$267,120	$140,998	$408,118
PM/CM Plan	$131,040	$91,811	$222,851
H-Bond Structuring	$143,640	$86,909	$230,549
ESP Financial Mgt Sys	$68,040	$21,401	$89,441
Subtotal Procurement	*$2,370,312*	*$1,122,377*	$3,492,689
Basic Service Implementation			
LOE	1,628,160	2,634,387	4,262,547
Subtotal Basic Service Implementation	*$1,628,160*	*$2,634,387*	$4,262,547
Note: This phase includes $2.12 M in communications and marketing costs.			
TOTAL ONE-TIME COSTS	*$6,160,380*	*$5,940,568*	*$12,100,948*

Attachment VII

LOCAL POWER PROPOSED STAFFING PLAN FOR CCA IMPLEMENTATION

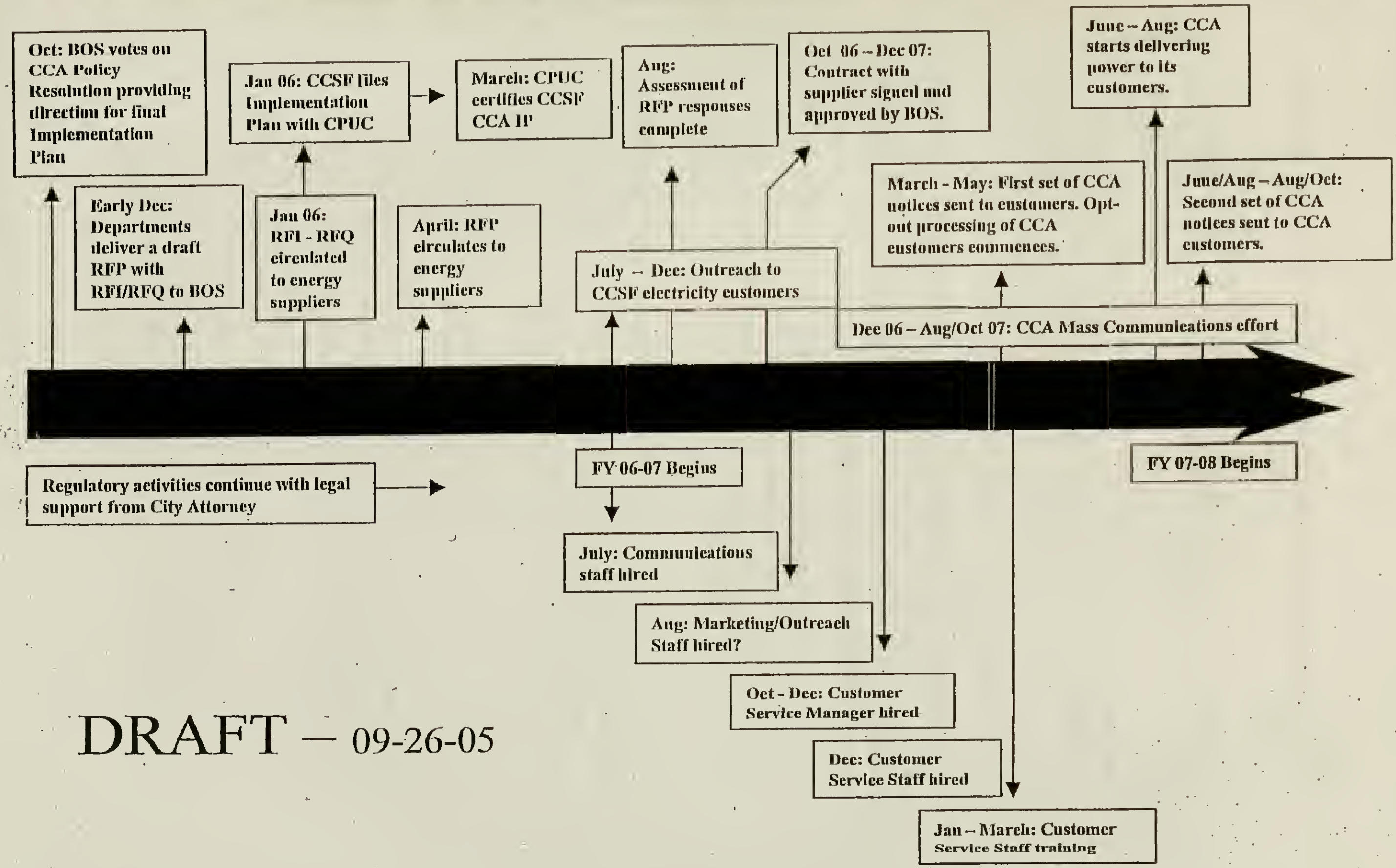
Program Director:

Program Director
Project Manager 1
Project Manager 2
Project Manager 3
Project Coordinator 1
Project Coordinator 2
Scheduler
Administrative Assistant
Graphics/WP
Sr. Financial Analyst
Financial Analyst
Marketing/Comm Manager
Marketing/Comm Specialist
Sr. Engineer
Engineer
IT Analyst
Sr. Energy Analyst
Energy Analyst
Attorney
Sr. Regulatory/Policy Analyst
Regulatory/Policy Analyst
Compliance Manager
Contract Specialist

PUC/ENV:

Project Manager 1
Project Manager 2
Project Manager 3
Project Coordinator 1
Project Coordinator 2
Project Coordinator 3
Administrative Assistant
Sr. Financial Analyst
Financial Analyst
Marketing/Comm Manager
Marketing/Comm Specialist
Sr. Engineer
Engineer
IT Analyst
Sr. Energy Analyst
Energy Analyst
Attorney
Sr. Regulatory/Polioy Analyst
Regulatory/Policy Analyst
Compliance Manager
Contract Specialist

Potential CCA Startup Activities & Staffing Timeline Scenario



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Local Power's Proposed Timeline Through Basic Service Implementation

PHASE	DURATION	PROPOSED SCHEDULE
Start-Up	12 weeks	Tue 11/1/05 - Mon 1/23/06
Program Development	17 weeks	Tue 12/27/05 - Mon 4/24/06
Procurement	215 days	Tue 3/28/06 - Mon 1/22/07
RFQ	4 weeks	Tue 3/28/06 - Mon 4/24/06
RFP	13 weeks	Tue 4/25/06 - Mon 7/24/06
Bidders Prepare Bids	13 weeks	Tue 7/25/06 - Mon 10/23/06
Evaluation and Award	13 weeks	Tue 10/24/06 - Mon 1/22/07
Basic Service Implementation	13 weeks	Tue 1/23/07 - Mon 4/23/07

local power
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To: Catherine Rauschuber, Budget Analyst's Office
Fr: Paul Fenn, Local Power
Re: Budget Analyst's Report on CCA Before Budget and Finance Committee

Local Power comments on the October 6, 2005 Budget and Finance Memo

1. We agree with the assessment that the Local Power and PUC Budgets vary, the core reason for the variances is that the Local Power view of what the CCA Program Implementation tasks need to implemented be is different from the PUC view of what tasks need to be implemented.

The root of this difference lies in the degree to which the CCA program is viewed as a commodity power procurement exercise (SFPUC view) versus a game-changing DG and renewables infrastructure build, supplemented by commodity power (Local Power view). Evidence of this fundamental difference includes:

- SFPUC planning to rush out an RFI/RFQ immediately, without dealing with some of the tough design issues and decisions first. Local Power proposes to do some homework and define a baseline program, addressing the complex renewable build and PG&E interface, prior to soliciting industry feedback so that the feedback received is more germane.
- SFPUC's lack of planning and budgeting for start-up tasks, and the incomplete set of those tasks they do set forth
    - Rationale "start-up" and "one-time" costs is inadequate. SFPUC simply has "scenarios" of 50% to 100% staffing for level-of-effort which result in a swing of $2.3M to $5.3M. What drives the level of activity? What are these people doing? What are the deliverables? At 100% staffing the SFPUC budget totals $11.2M for startup/one-time.
- SFPUC inadequate budgeting for important tasks
    - SFPUC budget only has $150,000 for RFQ/RFI and RFP process – clearly they do not grasp the complexity and importance of what we are undertaking in the RFP (also, didn't they spend more than that on just the implementation plan, which is a relatively simple document?).

2. Under the Section called "Comparing the PUC and Local Power Proposed One-Time Start-up Costs:, in the section entitled "Staffing, there is a statement that "Local Power's draft IP and proposed staffing plan does not include these (Customer Service and Call Center) functions which are assumed to be contracted out."

The Local Power IP does address customer Service and Call center functions in the Program Basis Report section of the IP, as well as in the Program Development and Implementation phases of the Proposed Staffing Plan Local Power submitted to the Budget and Finance Committee September 15, 2005. The abbreviation "CSC" is used for Customer Service Center on the summary sheets.

The Local Power Proposed Staffing Plan reflects performance of the Customer Service and Call Center work by the PUC, consistent with the PUC's IP.

3. In the 'Start-up Costs' section, H-Bond revenues are not discussed as a possible source of funds to cover the start-up costs, which is our proposal in the form of an H Bond reimbursement.

4. In Comment 1., the Program Director is described as an 'outside contractor'. While this is a possible approach, the LAFOC-approved Local Power Implementation Plan dated May 13, 2005 and the Local Power Proposed Staffing Plan dated September 15, 2005 provided an open-ended discussion of the structure for managing the implementation of the SF CCA, and did not specifically state that the PD function should be 'contracted out'.

Please review the program implementation elements of Chapter V of the Local Power Implementation Plan dated May 15, 2005 to revisit our discussion of the steps and approaches Local Power feels are appropriate for the implementation of this critical program.

In further detail on the implementing entity, the Local Power IP describes a recommended staff structure, which was modeled on an approach used to implement a light rail project in the Los Angeles area. There, a special purpose implementation authority was formed by legislation to implement the design and construction of the light rail project, which was then turned over to the Los Angeles MTA for operations once the implementation was complete.

In the Local Power Proposed Staffing Plan, in the Start-up Phase Tasks section, item 2 identifies the development of the governance structure for the implementation of the CCA as a task to be completed.

5. In Table 5, it states that the Local Power IP does not provide for City Contracting requirements. This is not correct. Both the Local Power IP and Proposed Staffing Plan reflect the development of the CCA RPQ and RFP in compliance with all applicable CCSF requirements and programs, which would include compliance with all CCSF contracting requirements applicable to the program.
6. Overall budget. While $11.2M to $12.1M is a lot of money in absolute terms, relative to what this program will accomplish for SF it is insignificant. First, this is nothing extraordinary to prepare a contract that will be worth several billion dollars. It is also insignificant compared to the savings that will result, both for the City and County and for San Francisco ratepayers. By SFPUC's analysis, a successful program scenario could save up to $700M over 30 years. Doing the initial program development and RFP work thoroughly and correctly will be one of the most important factors in enabling the program to capture such a benefit. Finally, the cost is unremarkable considering the dollar value of the City and County's H Bond issuance for the 360 MW, preparation for which constitutes the vast majority of the budget. With a long term view, the Board of Supervisors should give serious consideration to significantly increasing the upfront efforts and budgets to ensure program success. (The important thing at this point is to get the program direction clear and the concrete tasks defined, not dicker over a few hundred thousand dollars.)

Thanks for the opportunity to submit these comments. If you have any questions, do not hesitate to call me.

Paul Fenn
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